The Business Advocate Magazine

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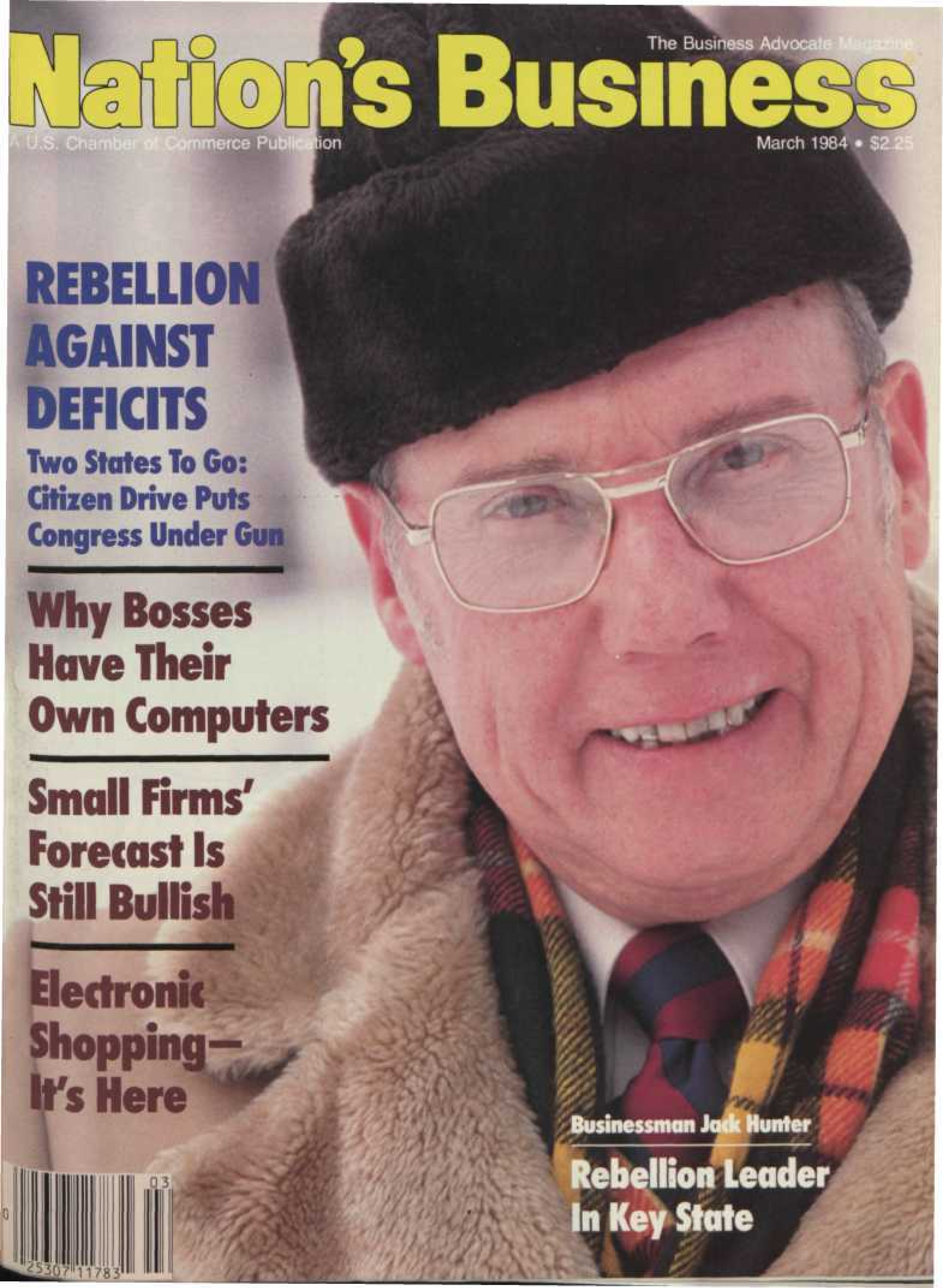

REBELLION AGAINST DEFICITS

Two States To Go: Citizen Drive Puts Congress Under Gun

Why Bosses Have Their Own Computers

Small Firms' Forecast Is Still Bullish

Electronic Shopping—It's Here

Businessman Jack Hunter

Rebellion Leader In Key State

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Nation's Business

March 1984
Vol. 72, No. 3

PHOTO: FRED WARD—BLACK STAR

PHOTO: DAVID VALDEZ

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A Political Science Lecture

WELCOME, STUDENTS, to your first class in Fundamentals of Political Science 101. Today we will examine one rule of politics generally, and then we will look at that rule in particular applications. The rule was propounded by a wise old philosopher when democracy reigned in the city-states of ancient Greece. It is to this effect: The purpose of any given election to public office is not only to throw their rascals out but also to throw our rascals in.

Let us see how the rule applies in the matter of the Reagan administration and the presidential election of 1984.

We should back up for just a moment, in order to emphasize what we mean by "the name of the game."

Here in Washington, and in every state capital and county seat, the name of the game is power. That is all there is to it—how you get power, how you hold power, how you exercise power, how you lose power, and of course how you restrain power.

Our topic today is the exercise of power. In a presidential administration, this is accomplished in many ways—by the granting and withholding of favors, by the allocation of public funds and, most significantly, by the appointment of persons to carry out a President's program.

The name of the game is power—how to get it, how to exercise it.

Consider for a moment the campaign and election of 1980. Throughout that campaign Mr. Reagan made his views crystal clear on every major issue. He spelled out his basically conservative philosophy. Time after time he dwelt on the necessity, as he perceived it, to reduce the rates of taxation on income, to cut back on the federal entitlement programs, to increase spending on defense, and so on.

He told us repeatedly that an overgrown federal bureaucracy had become part of the problem and not part of the solution. He made no effort to conceal his views—on the contrary, he set them forth at every whistle-stop—on such issues as education, the environment, civil rights and constitutional amendments. Mr. Reagan gave us, as they say, the whole nine yards.

And he won. He won big. But if you had been in Washington in recent months, when a great row developed over the U.S. Commission on Civil Rights, you might have supposed that no election had been held, that Jimmy Carter was still in office, and that the philosopher's rascal rule had never been devised.

What we saw was an effort to change the name of the game. A movement developed to prevent Mr. Reagan from naming his own like-minded people to the commission, and weeks of negotiation were required before the issue was more or less resolved in changing the procedures by which commission members are appointed.

The whole thing was preposterous. It was a denial of the very substance of politics. There is nothing sacrosanct about the Civil Rights Commission; it is an independent agency within the executive branch, not to be distinguished from such other agencies as the Federal Trade Commission, Federal Communications Commission, Consumer Product Safety Commission, and the Occupational Safety and Health Administration. The President had the same right and duty to name sympathetic persons to the Civil Rights Commission as he had to name James Watt as Interior Secretary.

A curious argument arose. The President's nominees had perfect credentials in the world of civil rights, but on particular issues they doubted the conventional wisdom. That is to say, the President's people tend to oppose racial quotas, racial-balance busing and racial discrimination against anyone. The Carter holdovers held opposite views. The giddy notion took root that only those who believe in racism (as racism is manifested in quotas, busing and affirmative action) are true civil righters. It was amazing.

We saw the same obtuseness at work in areas of the environment. No one should have been startled that Secretary Watt wanted to lease oil and gas reserves and to cut back on the purchase of land for national parks. This was exactly what the President's victorious supporters had every right to expect. Over at the FTC, Mr. Reagan named conservative Jim Miller to replace liberal Mike Pertschuk. It was the rascal rule, perfectly and properly applied.

IF THE PRESIDENT is re-elected in November, he probably will have a chance to name at least two or three Justices of the U.S. Supreme Court. You can bet your last buffalo nickel that Mr. Reagan's choices for the High Court would not be the choices of, let us say, Walter Mondale.

Mr. Mondale, to his credit, understands these things. He shocked some of his more idealistic fans in this very matter of the Civil Rights Commission. If he takes over the White House next January, said Mr. Mondale, his first act will be to fire all the Reagan people at the commission and to hire all those whom Mr. Reagan had fired. Right on! This is what politics is all about. □

Ways To Buy Bonds

Ray Brady is half right in "Those Tempting Municipal Bonds"[January]. He mentions unit investment trusts as an alternative to municipal bonds but does not mention open-end mutual funds.

Small and large investors can avoid most of the risks of investing in tax-exempt municipal bonds, while retaining their advantages, by putting their money into "real" mutual funds and not into unit trusts. Since open-end funds are managed by well-qualified investment professionals, they offer both diversity and safety. Thus, if the credit condition of an issuer deteriorates, the securities can be sold.

A unit trust has no ongoing portfolio management and can sell securities only under certain circumstances. In fact, several name-brand sponsors of unit trusts and their investors did get stuck with Washington Public Power Supply System bonds.

JOHN R. THOMAS
Vice President, Mutual
Fund Product Group
Investors Diversified Services, Inc.
Minneapolis

As the publishers of a newsletter that focuses on the creditworthiness of specific municipal bonds, we agree with Brady's observation that even sophisticated investors do not understand municipal bonds.

We have one caveat to offer in regard to unit investment trusts. Investors should be aware that many unit trusts consist of bonds maturing in 20 and 30 years. That exposes the investor to market risks if interest rates rise. If the investor has to sell, the problem is compounded by the dealer's "spread," which can make the selling painful to the pocketbook.

B.K. WAIDZULIS
President
MuniNotes, Inc.
Chicago

Brady mentioned that the San Jose School District in California declared bankruptcy.

How can a school district declare bankruptcy? What happens to the district when this bankruptcy has been declared? Does it no longer exist? I have never heard of a school district doing this before.

DONNA H. MATTER
Devils Lake, N.D.

Editor's note: *Declaration of bankruptcy is indeed "very rare" for a public agency, according to Hilda Beck, an assistant superintendent of the San Jose school district, but life in the district's classrooms is going on as usual. San Jose's troubles began when the California legislature rescinded a law that would have provided funds for cost-of-living raises for the district. As a result, the district did not have enough money to give its employes the raises required under a three-year contract. After presenting its case before a federal bankruptcy judge on June 30, 1983, it was declared officially bankrupt. Salaries were frozen at the fiscal 1981-2 level, prompting a lawsuit by teachers. Meanwhile, the district is working out a reorganization plan to submit in court.*

Snail mail

The U.S. Postal Service's pedal-to-the-metal campaign to sell the nine-digit ZIP code ["How ZIP Plus Four Can Deliver for You," January] is a classic in bureaucratic misdirection of priorities.

Something is very wrong when it takes a first-class letter from early Saturday to mid-Tuesday to reach downtown Atlanta from a nearby suburb. The distance by automobile is only 19 miles. (I could have hoofed it myself in about six hours with time left over for a burger and a soda.)

Service to really faraway places like Salt Lake City has become even worse. How does 6 to 9 days grab you?

ALAN K. KINDLE
Sandy Springs, Ga.

False alarm?

Until I read "U.S. Pension Time Bomb" [January], I believed that NATION'S BUSINESS had competent, well-educated writers and efficient editors. However, upon noting that there were nine major errors in mathematics and fact in the article, I could only assume that the writer was not interested in the

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You can't be proud of your company when you're not proud of your company car.

After all, the cars in your company's fleet do reflect your company's image.

That's why more and more companies are adding the Buick Century to their fleets.

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facts and that the editor-in-charge did not attempt to substantiate them.

As an example, in the first paragraph you say that the federal civil service retirement system runs up a debt of $70,000 per minute. But that does not agree with the $24 billion cited later as the amount of the system's shortfall.

To agree, the per-minute debt would have to be $46,662—an error of 34.7 percent, a rather substantial difference.

The amount of misinformation contained in the article makes me wonder about the validity of the rest of the information in NATION'S BUSINESS.

DONALD L. MANN
President, Chapter 695
National Association of Retired Federal Employees
Clinton, Okla.

Editor's note: *Other officials of the National Association of Retired Federal Employees also objected to the article's use of fiscal information that came from reports of the federal Office of Personnel Management. We believe that the $1 trillion unfunded liability of the civil service and military retirement funds, cited in the article, represents one of the most serious fiscal problems facing taxpayers generally. The association disagrees with this interpretation.*

Granted, some adjustments in the federal pension system are needed, but you are very remiss in combining the federal civil servants with the military.

Do we expect to have a strong military to defend our country if we take away many of the current inducements? We must be careful how the military pension system is handled. Should we give vesting rights after 10 years as so many industries do? Should we give additional pay for service away from home and for going into high risk areas? Should we provide an employe savings plan? What would these alternatives cost?

Before condemning the military retirement system, you should do more careful analysis. And you should not include systems as different as those covering federal civil employes and the military in the same analysis without clarification.

W.D. MACGREGOR
South Bound Brook, N.J.

Slap at supply-siders

In your January editorial "Let's Hear It for the Supply-Siders," you laud the success of President Reagan's supply-side policies. Yet in your cover article, "Surge in Consumer Spending, Business Investment and Jobs," we find that business investment continues to decline in real terms while consumption rose at a rate faster than the gross national product as a whole.

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Large deficits, achieved by reducing taxes and increasing government spending, combined with accommodative monetary growth, sounds suspiciously like what used to be called Keynesian economics.

Supply-side economics was supposed to work by raising the level of investment and increasing work effort through reduced taxes. In the first three years it clearly has not raised the level of investment. Given the fact that the labor force is growing more slowly than most economists, including supply-siders, would predict, its success in increasing work effort is highly debatable.

Perhaps the loose use of economic terminology contributes to the economic illiteracy that NATION'S BUSINESS regularly deplores.

JOHN L. PELOQUIN
Burnsville, Minn.

Protecting the little guy

"How Secure Is Your Firm?" [January] did an excellent job of pointing out the importance of taking an active, preventive approach to protecting small business. It is important, however, to be aware that the 1980s has brought a new kind of criminal who does not employ the traditional methods of breaking and entering. This new kind of criminal uses a computer keyboard and a phone modem.

Small businesses are particularly susceptible to computer theft. They usually have fewer and less specialized employes, reducing the division of duties—one of the main defenses against loss through crime or mistake. In addition, small businesses tend to use smaller computer systems, which have fewer security features.

I have introduced legislation, H.R. 3075, which establishes an 18-month task force of technical and management experts from the public and private sectors, charged with outlining the problem of computer crime and how it affects small business. In addition, the bill directs the Small Business Administration to establish a clearinghouse for information on this subject and to develop guidelines to support small business security efforts.

Rep. RON WYDEN (D-Ore.)
Washington

Retorts on decontrol

Re: "Natural gas mess" [Letters to the Editor, January].

J.J. Keller's letter challenged the wisdom of natural gas decontrol. It is apparent that he has been seriously misinformed about the natural gas issue and the benefits that would be realized by all consumers through natural gas deregulation.

The pricing situation he refers to is the direct result of natural gas price controls and not the avarice of the natural gas producers.

NICHOLAS J. BUSH
President
Natural Gas Supply Association
Washington

It is a constant source of amazement to me that business people who should know better object to market forces determining price. J.J. Keller writes that it is impossible to change one's natural gas supplier and intimates that his public utilities commission is favoring the gas supplier by allowing prices to jump 80 percent.

I have been engaged in a business for over 25 years. I also studied economics under Keynesian professors who believed in tampering with market forces, but when it came down to basics, they said that price is determined by supply and demand.

HARRY B. EDDY
New System Laundry
Portland, Me.

Nation's Business

WASHINGTON LETTER

► THERE'S SIMPLE EXPLANATION for highly unusual conduct of administration on fiscal policy this year: traditional political strategy. White House is distancing itself from its own budget because President Reagan's election strategy is designed to keep public attention on economic gains. While opposition assails deficits, defense spending levels, President will cite increased employment, sharply reduced inflation. Theory is that voters relate more directly to jobs, prices than to complex fiscal issues that do not appear to pose immediate threat.

► REAGAN'S ASSAULTS ON DEFICITS part of that strategy. Rather than go on defensive for red-ink spending, he simply agrees with Democrats that projected deficits are intolerable, hoping to defuse that issue and be free to concentrate on generally good economic news.

► SEN. J. BENNETT JOHNSTON (D-La.) has again joined elite ranks of congressional incumbents running for re-election without opposition. Prospective challengers decided against taking on a sitting senator who was unopposed for current term and took 55 percent of vote in three-way race when first elected to the Senate in 1972. Two members of the House had considered running against Johnston. Preliminary analysis that the senator might face a strong challenge from either was erroneously converted in December's NATION'S BUSINESS into statement that Johnston was among incumbents considered vulnerable this year. Johnston's unopposed status is final word on the question of vulnerability.

► EXPANSION of political action committees slows substantially, despite approach of election. Federal Election Commission reports that 3,525 PACs in existence early this campaign year represented gain of only 4.5 percent over 1983 total. Average yearly gain from 1974 to 1983 was 22.3 percent. Political analysts say most organizations interested in forming PACs already are in field, other groups would follow only if special situations arose affecting them. Next commission report, due in July, will show whether election concerns have accelerated PAC growth.

► THEY ARE CALLED PREFERRED PROVIDER organizations, and they are drawing growing attention in health care field. Organizations include physicians, hospitals that contract on competitive basis with companies to furnish medical care to employes. Developments on this aspect of health coverage will be discussed at March 6 meeting in Washington. Clearinghouse on Business Coalition for Health Action, a project of U.S. Chamber of Commerce, is sponsor. Additional details available from Chamber's Jan Ozga, (202) 463-5514.

► CONSERVATIVE RANKS on two key Senate committees are strengthened by recent appointments of GOP members. Strom Thurmond of South Carolina joins Labor and Human Resources Committee, while Gordon Humphrey of New Hampshire is now on Banking, Housing and Urban Affairs Committee. Risk is eased that coalitions of Democrats, liberal Republicans might prevail against committee leadership on some issues.

► HARDER LINE BY JUDGES in sentencing criminals nearly doubled prison population over last decade, but it strains ability of states to accommodate this growth. Pleas for federal help increase as number of prisoners nears 420,000. Massive new spending program unlikely,

but legislation pending in Congress would provide funds to develop state master plans for construction, renovation. Would also subsidize interest on bonds states issued to build prisons. Another feature would allow donation of federal surplus property to state and local governments in urgent need of additional facilities to handle prisoners.

► BURGEONING PRISON POPULATION should not be interpreted as sign of major progress in anticrime fight. Sen. Alfonse D'Amato (R-N.Y.) says, "We are far from winning the war on crime," cites Justice Department figures showing that only 6 percent of burglaries, 21 percent of business robberies, less than 1 percent of drug sales ever lead to arrest. And, he says, only small minority of arrests ever lead to conviction, and only minority of those convicted ever spend time in prison.

► REPUBLICAN REP. BOB WALKER of Pennsylvania takes to House floor to ask: "Why is Congress not doing anything?" He blames Democratic leadership for holding politically sensitive issues off floor, leaving members idle. Walker cites constitutional amendments on school prayer, balanced budget, line-item veto, among others. Also challenges Democrats advocating deficit-cutting tax increases to bring them up for vote.

► WALKER MOVE IS PART OF HARDBALL campaign by bloc of younger, conservative House Republicans who feel they have strong public backing for their stands on issues. They want to dramatize contention that House Democrats are preventing action on school prayer, budget amendments, force them to answer at polls. Tough campaign is in sharp contrast to traditional cooperative, even friendly, stance of majority and minority leaderships despite political differences. Representatives in forefront of drive are using virtually every parliamentary tactic available. Their goal isn't a modest one: GOP control of the House.

► EFFORTS TO STRAIGHTEN OUT chaotic situation in federal bankruptcy laws now more tangled than ever. In so-called reform in 1978, Congress made it so simple for individuals to walk away from debts that number of personal bankruptcies soared. Business has since been seeking revision under which future earning potential would be factor in determining whether debtor could avoid repayment. Meanwhile, U.S. Supreme Court has thrown out as unconstitutional part of 1978 reform bill establishing system of federal bankruptcy judges. Now organized labor has joined in, seeking provision that would bar firms under Chapter 11 bankruptcy from invalidating collective bargaining agreements. Supreme Court gave Congress until next month to straighten out issue of judges' status. House may try to meet deadline, but whether it can do so remains to be seen.

► HOUSE SPEAKER TIP O'NEILL delighted White House when he took time from assailing budget deficits to oppose administration plan to eliminate or curtail one of his favorite federal projects. Budget says it is "no longer appropriate" for federal government to operate transportation research center headquartered in O'Neill's district. Study is under way to determine fate of center, which does research for all activities of U.S. Transportation Department. Options include shift to private sector operation, decentralization of functions, outright abolition.

► LOOK FOR SPATE OF LEGAL ACTIONS as result of little-publicized federal rule on labeling of chemicals and their use in the workplace. Regulation, issued by Occupational Safety and Health Administration November 25, directly affects more than 10,000 chemical manufacturers and 300,000 firms that use chemicals. Initial price tag for workplace labels, employe training, information sheets for business customers, and so on, will be $600 million. Annual cost to business thereafter: $160 million. U.S. Chamber holding information seminar on subject March 27; for details, contact Alan Joaquin, (202) 463-5517. Issue in expected lawsuits: Whose role pre-empts whose? Many states, some localities, already have such rules--more stringent than OSHA's.

Tone Talking Memory Dialer

Just hold the new Dial-It™ automatic dialer up to the mouthpiece of your telephone, and you can dial 100 phone numbers and save money and time by using MCI, SPRINT and more.

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It's only about the size of a credit card, but it's got more power than most desk size dialers. And, here's how it works.

To store a number in memory, just push 'store', pick a storage number, and dial the number on the keypad. You'll see the number on the extra large LCD display for error-free entry.

If the number is correct, just push store again and the number is permanently stored. And speaking of permanent, the batteries last a year and can be changed **without** losing the memory.

Here's a really neat feature. If you use MCI or SPRINT, you only have to key in your code number once. Then each time you want to store a number with your MCI or SPRINT code in front of it, you simply push the special code button.

Now you won't have to redial long complicated codes to store each new number in memory. Plus, you can dial a long distance number that's not in memory by using this button to give your codes first. Then use the Dial-It™ to dial the number.

If you require a pause to get an outside line or to wait for a computer, just push a button. If your phone company can't accept high speed tones, push 'slow' and the Dial-It™ will slow down.

If you reach a busy number, no problem. Just push last number redial.

If your Phone Company can't accept tones at all (most do even if you still have a dial phone), then you can only use the Dial-It™ if you use MCI or SPRINT. So, now you can save big, even if you don't already have Touch Tone® service.

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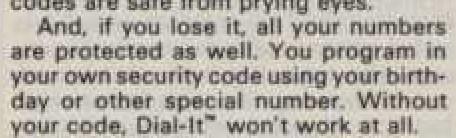
Just flip open its cover as shown above, touch 2 buttons and put the Dial-It™ against the mouthpiece of your phone.



Here's a phone's eye view of the Dial-It™. It speaks True Tone to the phone company through your phone's mouthpiece. You can use it to dial manually or you can automatically dial 100 of your most important phone numbers.

You'll be amazed at the speed and ease of this shirt pocket dialer. In addition to MCI and SPRINT, it works for credit card calls and phone banking.

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The Peril in Inventory Growth

The economy is now expanding at a 4.5 percent annual rate, a level most economists say can be sustained through 1984, without a surge in either prices or interest rates.

Current economic growth will generate sufficient capital to meet borrowing needs of business, consumers and government at affordable rates, says Treasury Secretary Donald Regan.

But this bright forecast could turn gray, warn a growing number of bankers and economists, if Congress fails to trim excessive federal spending or if business allows inventories to grow too rapidly.

If too many companies decide they lost potential Christmas sales by not having enough goods on retailers' shelves, says Gerald Corrigan, president of the Minneapolis Federal Reserve Bank, they could be tempted to loosen tight controls on inventories.

Last November, 12 months into the recovery, the ratio of inventory to sales was at a record low, of 1.34 to 1, according to the Commerce Department's latest figures. High interest rates have taught business to cut financing costs by trimming inventories.

Borrowing to finance a significant inventory buildup, when businesses are already expected to boost spending this year for new equipment and buildings by an estimated 10 percent, could result in a credit crunch.

Last year there was no such threat, says the Morgan Guaranty Trust Company of New York, since business' internally generated funds exceeded new fixed investment by a healthy $9.3 billion. This year, the bank says, business will need $23 billion in externally raised funds.

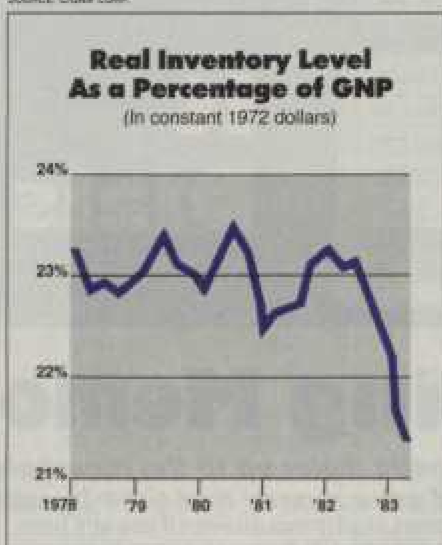
Should Congress fail to enact the administration's proposal for modest reductions in projected budget deficits, this $33 billion swing in business' demand for credit could spell trouble.

The Profit Picture

Business profits soared about 40 percent between the final three months of 1982 and the last quarter of 1983, after adjustments for inventory gains and for the difference between actual and replacement cost depreciation.

This is about average for the seven postwar recoveries. Exceptions: the unusually strong expansion beginning in

SOURCE: CIGNA CORP.



Inventories have dipped to a record low. A sharp buildup could put upward pressure on interest rates.

1949 and the brief economic upturn in 1980.

Historically, adjusted pretax profits have risen an average of 5 percent during the second year of a recovery, according to Goldman Sachs. But excluding the 1958 recovery—when adjusted pretax profits fell nearly 12 percent—the typical gain in the second year of recovery has been 9.8 percent. The U.S. Chamber of Commerce forecast section estimates that adjusted pretax profits will rise 24.7 percent in 1984. The Blue Chip consensus forecast of a 21.2 percent rise in unadjusted pretax profits compares favorably with the postwar average of 5.5 percent.

Bigger Refund Checks

Cold winter weather, sharply higher heating bills, rising Social Security taxes and payments on last year's 10 percent rise in indebtedness have left consumers in a tight-fisted mood. But the arrival of bigger than normal federal income tax refunds—thanks to the final installment of the Reagan tax cuts—should put consumers back in the mood to spend, says Edward Guay, an economist with Philadelphia-based Cigna Corporation.

With the arrival of spring, new car sales should begin to pick up, and housing starts should also begin to show some life.

Consumers can still afford to take on more debt, since increases in after-tax personal income last year just about kept pace with the rising level of debt. Consumer debt, in proportion to after-tax income, is at 19.4 percent, well below the 1979 high of 22 percent.

A possible loosening of Federal Reserve money policies over the next few months should mean that interest rates will be steady or drifting downward. All of this means that retailers throughout the country can expect healthy sales this spring.

The Recovery Continues

The nation's factories are working at 80 percent of capacity, according to the Federal Reserve Board—an increase of 10 percentage points since the bottom of the recession. This is still below the peak of 88.4 percent, registered in 1973. But it is high enough for companies flush with cash to increase capital spending for more efficient tools and equipment and to increase capacity.

As the expansion continues at home and recovery moves ahead overseas, exports should begin to gain. So should production of defense-related equipment, as the nation's military buildup continues apace.

The economic health of state and local governments is on the rebound, and this means more spending on roads, bridges and other parts of the infrastructure, later in the year.

Sales of general merchandise, apparel, furniture and appliances, along with increased auto production and home building, should keep the recovery moving ahead in the second quarter.

Some surprises could develop if oil prices remain weak or even drop. Falling energy prices would further strengthen the dollar, reducing the cost of imports in general. Consumers would benefit as the purchasing power of their incomes rose.

Inflation rates of between 3 and 4 percent this year, instead of the 4.5 to 5.5 percent forecast by many economists, would temper wage demands in key industries where labor contracts will be renegotiated during the year. With labor costs accounting for two thirds of the cost of finished goods, low wage settlements would reinforce the disinflationary pressures that are coming from depressed commodity prices.□

—Peter A. Holmes

The sleek handset can be placed up or down.

Bedside Big Mouth

Now you can reach out to the world from the comfort of your bed with this elegant new electronic clock radio, telephone and speaker phone.

You're lying in bed. And, you are discussing the day's events with your mate. The lights are out, you're relaxed and your hands are at your sides.

So what's so new? Well for one thing, your mate is out of town and the two of you are talking on the latest in hands free speaker phones. What's more, if the two of you were in bed together, you both (or your whole family for that matter) could talk to anyone on the phone simultaneously.

Of course you can pick up the decorator designed phone handset with its long coiled cord, and talk or make calls as you would with your regular telephone. But with this new phone, you'll have all the new telephone advances rolled into one.

And best of all, you won't have to pay the phone company's monthly rental charges for their dumb phones ever again. Just plug in the standard modular plug and the AC line cord and you're ready to go.

You'll have universal push button dialing that gives you the convenience of push buttons anywhere and works on your current phone line and your own number.

A last number redial key redials busy numbers with the touch of a button. And, you'll really enjoy the delightful chirping electronic ring that won't send you into shock if it sounds when you are asleep.

If you want momentary privacy from the person you're talking to, a mute key lets you have it. It's like electronically putting your hand over the mouthpiece.

The sound quality is nothing short of incredible. An electret condenser mike lets you be heard loud and clear at the other end, whether you're using the handset or the hands free speaker phone.

When you use the handset, you hear the other person through a high quality transducer like you'd find in fine headphones. With the speaker phone, you'll hear fabulous sound through the Hi Fidelity speaker used for the AM/FM radio.

AND WHAT A CLOCK RADIO

If you're impressed with this telephone system (I hope you are) wait till you find out about the timing conveniences and sound quality of this electronic clock radio.

First the controls. The large green LED display with high/low brightness switch, is extremely easy to read. You won't have to worry about losing the time if there's a power failure once you install the standard 9V battery (included) for protection.

You'll have fast and slow set for both the regular and alarm times. And, once you've set the alarm, you can choose to be awakened by your favorite radio station or an electronic chirp alarm. If you aren't quite ready to get up, just tap the handy snooze button for a few minutes of extra sleep.

And since getting up is no fun, this radio will also help put you to sleep. A touch of the sleep button will give you up to an hour of your favorite radio station to relax you. The radio will then shut itself off and wait to perform its next programmed task.

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It doesn't take many features to beat the phone company's phones. But, there are lots of regular clock radios.

Once you hear the sound of these fine sensitive radio receivers, you'll be sold on the sound as well as the phones.

This FM radio really pulls in the stations. And the full range speaker has a very pleasing and full rich sound.

Of course, with the touch of a switch you can also tune in your favorite AM stations too. You can keep up with the latest news or your choice of music on AM.

This all new electronic clock radio telephone brings a really elegant look to your bedroom, office, den or kitchen. What you can't see in our pictures is the elegant sound you'll enjoy for years to come.

TRY THE BEDSIDE BIG MOUTH RISK FREE

Be prepared for a shock. If you haven't tried any of the new electronic phones you're in for a pleasant surprise. And, for that mattter if you haven't bought a new clock radio for a few years you're going to be pleasantly surprised too.

Try this all new Electronic Clock Radio Telephone risk free in your own bedroom. If you aren't 100% satisfed, simply return it to DAK within 30 days for a refund.

To order your all new ~~Unitech~~ Bedside Big Mouth (our name for it), Electronic AM/FM Digital Clock Radio Telephone, with both handset and speaker phones risk free with your credit card, call toll free.

Or send your check not for the up to $129 to $159 price tag we've seen on other telephone clock radios without the speaker phone, but send the incredibly ~~low price of just $68 ($5.50 P&H) Order No. 9607. CA res add 6% tax.~~

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Cutting Procurement Paper Work

By Kathy Root

A task force of private-sector leaders and federal officials will seek a 10 percent reduction this year in paper work burdens on small firms that do business with the government.

Complex forms associated with federal procurement deter many small companies from becoming government suppliers, notes Frank S. Swain, the Small Business Administration's chief counsel for advocacy.

"It's a loss to small business and the taxpayer when large agencies cannot come up with a simpler process to buy goods and services for small business," he says.

Swain will soon appoint the task force, which will work with the Office of Management and Budget to find ways to reduce procurement-related paper work.

Although OMB has reported a 29 percent reduction, overall, in federal paper work in the past two years, an SBA report shows that more than 80 percent of small business owners believe that their paper work burdens have increased or remained the same.

The Paperwork Reduction Act, which directs federal agencies to cut down on paper work required from the private sector, was passed by Congress in 1980.

PHOTO: KEN HEINEN

The Commerce Department's Vincent Burke is looking forward to helping small companies learn how to export their products.

The Navy's Slow Hand

Complaints from small firms about the Navy's payment practices could lead to congressional action to make the service conform to provisions of the Prompt Payment Act.

At a recent House Small Business subcommittee hearing in Portsmouth, Va., chaired by Rep. Norman Sisisky (D-Va.), the Navy was accused of being the "worst bill payer in the government."

Under the Prompt Payment Act, which went into effect in October, 1982, government agencies are required to pay suppliers' invoices within 30 days or begin paying interest after a 15-day grace period.

But federal contractors and trade association representatives testified at the hearing that the Navy often takes a year or more to pay up and doesn't always pay interest.

Kenton Pattie, vice president of the International Communications Industries Association, accused the Navy of being the worst government bill payer.

The Navy's late payment practices, he said, "clearly discourage firms . . . from seeking Navy contracts. Firms are not paid on time, and they aren't getting the interest they are owed."

Office of Management and Budget figures show that of the government's \$2 million in late-payment interest charges last year, \$1 million was paid by the Navy.

In one case cited at the hearing, the Navy cleared an invoice for payment only after materials had been sent to an aircraft carrier and the ship had brought the invoice back to port after sea duty—months beyond the 30-day deadline.

A spokeswoman for Sisisky says he is "seriously considering" ordering a General Accounting Office investigation. Legislation to deal with the problem could be attached to the Defense Department authorization bill this summer if poor payment practices persist, she says.

Seminars on Exporting

Business owners who want to start exporting can learn this spring how to take advantage of the Export Trading Company Act through a series of one-day seminars sponsored jointly by the Commerce Department and several of the "big eight" accounting firms.

The Export Trading Company Act, approved by Congress in 1982, enables U.S. companies, particularly small firms, to set up export service businesses with other companies and banks.

A dozen seminars are planned around the country, and more may be added to the schedule later, reports Vincent Burke, assistant director of the Commerce Department's office of export trading company affairs.

Burke says the seminars, which will cost participants \$100 to \$150 each, will be "more practical" than introductory seminars the Commerce Department sponsored last year.

"Business owners will walk away from one of these knowing whether they should form an export trading company or use one, and how to do it," Burke explains. Agendas will include a discussion of legal issues, trade financing and Commerce Department services, he says, and a half day of "taking a hypothetical company through the ETC decision process."

Cities on the schedule now include Denver, Dallas, San Francisco, Los Angeles, Detroit, Pittsburgh, Chicago, Minneapolis, New York, Baltimore and Houston.

For more information on the seminars, get in touch with Vincent Burke, Office of Export Trading Company Affairs, Room 5618, Commerce Department, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230; phone (202) 377-5131. □

$49.50 BREAKTHROUGH!

When you are at rest, so is your heart. A low resting heart rate usually means you're in good condition. Have you checked yours?

When you exercise, you should reach your heart's target zone. But, have I reached my exercise target zone, or just had too much coffee?

It's a high fashion dress watch and a sharp looking sports watch depending on which band you use. You get two luxurious bands with this watch.

Wrist EKG

Now you can exercise, rest, swim or go out to dinner wearing the latest in computer pulse takers on your wrist. Plus, it's a talented sports watch and a formal dress watch too.

By Drew Kaplan

It's a fact. You can tell a lot about yourself from your heart rate. You can evaluate the condition you are in, how much stress you are under, and how hard you should be exercising.

Think about it. How fast does your heart beat when you climb a flight of stairs? And how long does it take for your heart rate to return to normal?

Well, if you're at all like me, you may be a little out of shape. While I'm only 36, several friends my own age have recently had heart attacks. And frankly, I'm getting just a bit worried.

You see, I am getting past the point where I can simply say, "I'll get back into shape next year."

So, whether you're a long distance runner (this is the ultimate jogging companion), or just a few pounds overweight like I am, your heart rate will give you a definitive picture of your heart and body.

Now you can take your heart rate anytime, anywhere with the newest in sophisticated electronic pulse takers.

And best of all, this heart computer is contained in a beautiful 24 hour alarm, 24 hour chronograph, LCD watch, that you will be as proud to wear with a coat and tie as you are when you're running.

YOUR HEART'S TARGET ZONE

Your heart, just like any other muscle in your body requires exercise. Unfortunately, unlike your arms, you can't see your heart's condition just by looking.

The type of exercise called aerobic exercise is specifically designed to exercise your heart. The purpose of aerobics is to reach your heart's target zone.

So what is your target zone? Your target exercise zone is between 60 and 80% of your maximum heart rate. And here's an easy way to figure it out.

Simply subtract your age from 220 beats per minute. So, for me at 36, my maximum heart rate is (220-36) or 184.

So when I exercise I should get my heart rate up to at least (184 X 60%) or 110 beats per minute, and no higher than (184 X 80%) or 147 beats per minute.

With the Wrist EKG to help me, I can be sure that my workouts are valuable for my heart and neither dangerous escapades nor total wastes of time. Of course, before beginning any exercise program you should consult your own doctor.

BUT ISN'T EVERYONE DIFFERENT?

Here's the really exciting part. The worse shape you're in, the faster you'll reach the target zone and the less work you'll have to do to stay in the zone.

You see, as you get in shape, your heart doesn't have to beat as hard to do the same amount of exercise. Just as when you work out with weights, your arms become stronger, your heart becomes stronger with aerobic exercise.

So the Wrist EKG is safe for the beginner or the athlete. And, you'll really see your improvement as you exercise.

But you don't have to exercise. Just wearing the Wrist EKG and using it at the office when you're under stress, after you've walked up some stairs or around the block will make and keep you aware of your body's physical condition.

And look at this. Sit down at your desk and take your pulse. Then drink a couple of cups of coffee and take your pulse again. You'll see just what your morning 'pickup' actually picks up, and if God forbid you smoke, take your pulse before and after a cigarette. Wow!

JUST LIKE A HOSPITAL EKG

With Innovative's new Pulsemeter watch, you'll have supreme accuracy. It's like a direct electronic line to your heart.

You see, unlike other pulsemeters that use a light shining through your finger, this instrument works just like a hospital EKG. It measures the electrical impulses that cause your heart to beat.

The back of the watch is one receptor, and the metal touch sensor on the front of the watch acts as the other EKG sensor. Just touch the sensor, and you'll see your pulse on the large LCD Display.

IS IT A DRESS OR SPORTS WATCH?

Innovative time thinks that everyone interested in their pulse must be a professional athlete. So, they've built this watch with all the athletic extras.

It's not only waterproof, it's guaranteed down to 60 feet (although you can't actually take your pulse underwater). It has a stopwatch, a lap timer, and dual finish mode. Its band is made of very tough polymers. So, it's a sports watch.

But wait. I don't like black watches for dress. So, I've gotten Innovative to add a deluxe matching stainless bracelet to the watch. It's rendered in stainless and black and is a perfect high fashion choice. So, it's a dress watch.

Plus, there's a 24 hour alarm and an hourly chirp. The stainless band is great for sports or dress. So, you'll get the watch with the black band on it and the high fashion band packed with it, compliments of Innovative Time's superb engineering and DAK's good taste.

The Wrist EKG is backed by Innovative Time's 1 year limited warranty and comes with a 1 year battery in place.

TRY THE WRIST EKG RISK FREE

Now you can look at your heart as easily as the time. You'll see how you react to stress, foods and exercise. Don't let DAK's low price confuse you. Take this pulse watch to your own doctor and have him compare it with his EKG.

Why not take a copy of this ad too. Chances are that he'll also want one.

Try the Wrist EKG risk free. Try exercising and then check your cardiac recovery rate. If you don't like what you see, you'd better keep the watch. But if you just don't like the pulse watch, simply return it within 30 days in its original box for a refund.

To order your Wrist EKG, Pulse Sports/Fashion Watch, complete with two bands risk free with your credit card, call toll free or send your check for just **$49.50** plus **$3** for postage and handling to DAK. Order No. 9638. CA res add 6% tax.

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Making Pension Plans Simple

By Gerald W. Padwe, C.P.A.

For employers daunted by the complex tax laws governing employe retirement plans, there is an alternative that lives up to its name: the Simplified Employe Pension. It is simple because it permits employers to provide retirement benefits by contributing to employes' Individual Retirement Accounts instead of maintaining a more complicated pension or profit-sharing plan. SEPs also may be set up for self-employed individuals.

Under an SEP, an employer's contributions to an employe's IRA must be included in the employe's income but are deductible by the employe. The employe's IRA is governed by the regular IRA rules regarding distributions, withdrawals and so on, but the SEP contribution can be deducted in addition to the regular (maximum $2,000) deduction for the employe's own IRA contribution.

For 1983, employer SEP contributions are deductible by the employer and the employe up to the lesser of $15,000 or 15 percent of the employe's compensation. (For 1984, the dollar limit on the SEP deduction rises to $30,000.)

To be deductible for 1983, the contributions must be made no later than April 15, 1984. Even if no SEP now exists, 1983 contributions will be permitted if one is set up no later than April 15.

Self-employed individuals who missed the December 31 deadline for establishing a Keogh plan surely will want to consider the SEP alternative.

To establish an SEP, an employer must draw up a formal document that includes the requirements for employe participation and the SEP's contribution allocation formula. With certain exceptions, contributions must be made for each current employe age 25 or over who has earned at least $200 in the current year and has worked for the employer during any part of three of the preceding five years.

SEP contributions may not discriminate in favor of employes who are officers, shareholders, self-employed or highly compensated. Special rules limit how much of a highly compensated employe's pay can be taken into account under an SEP's contribution or allocation formula. As is the case with a tax-qualified pension or profit-sharing plan, an employer's SEP contribution can be reduced if the plan is partly or totally integrated with Social Security.

The Better Way To Give

Even though Santa returned north a few months ago for a well-deserved rest, the giving spirit remains in many people year-round. But the tax on large gifts reminds us that tax planning has a role to play even when generous impulses are involved.

Tax rules exclude the first $10,000 worth of gifts to any one donee during a taxable year from the value of gifts subject to gift tax. In a recent case reviewed by IRS, an individual who owned a 10-acre plot made gifts of specific parcels from that plot in each of three consecutive taxable years, so as to stay within the annual gift tax exclusion for each year. IRS approved the taxpayer's plan, noting that the taxpayer retained ownership and control of the remaining parcels.

However, the agency reminded taxpayers of a previous ruling against a taxpayer's "gift" of forgiveness of annual installment payments on a purported sale. According to IRS, because the donor intended, at the time of the sale, to forgive each year's installment payment as it came due, the sale amounted to a disguised gift of the entire property on the transfer date. Thus, the annual exclusion for gift tax purposes was allowed only for the year of the transfer.

The first method of making a gift may require an annual appraisal and multiple transaction costs, but that method has IRS' blessing.

Update on Employe Benefits

This column reported in November on attempts in Congress to come to grips with taxes on employe benefits. You will recall that IRS and the Treasury Department have been operating under a congressional requirement that they not issue any regulations or rulings in this area, pending congressional decisions on how—or if—this ever-growing part of employe compensation should be taxed.

The Stark-Conable bill discussed in that column was approved (with some modifications) by the House Ways and Means Committee before Congress adjourned last November, but it never came to the floor of the House. Neither was it considered on the Senate side. Accordingly, the moratorium on regulations and rulings, which had been in effect since 1978, expired Dec. 31, 1983.

Congress has now reconvened and is expected to give further consideration to employe benefit taxation in this session. For that reason, Treasury Secretary Donald Regan has announced that there will be a voluntary continuation of the moratorium until at least Jan. 1, 1985—although it is now legally possible for Treasury to propose new, and more restrictive, regulations affecting employe benefits.

It is always foolish to predict what legislation will or will not be passed by Congress, but it may be instructive to note that the deficit reduction package fashioned by Sen. Bob Dole (R-Kans.) late last fall (but never formally voted on by the Senate Finance Committee) did include a provision on employe benefits: an extension of the moratorium for two more years, through Dec. 31, 1985.

That may reflect substantially less enthusiasm in the Senate than in the House for tackling the taxation of employe benefits in an election year. Absent such enthusiasm, extension of the moratorium may be the most that can be expected.

The Treasury Department has declined every opportunity to take a position on taxation of employe benefits. It did not send a representative to testify on the Stark-Conable bill, and subsequent efforts to have the department stake out a position have been unavailing.

When President Reagan's budget was submitted to Congress last month, it contained no proposals on benefit taxation, for either changes or continuation of the moratorium.

The administration's silence makes even stronger the possibility that the moratorium will be extended. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director–tax practice for Touche Ross & Co.*

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Stages of a Stock's Life

By Ray Brady

HE IS AN EXECUTIVE we'll call Don Smith. When the economic outlook was at its gloomiest in late 1981, he decided to take a chance. As he saw it, the recession would not last forever, and once the economy started to recover, so would General Motors.

So Smith bought 1,000 shares of GM, and as they say on Wall Street, he picked up the stock right off the bottom—at $35 a share, bare pennies over its low price of the year.

Smith was correct in his analysis. By 1982 GM was showing that it could get its costs under control, and the stock roared up to a price of about $60 a share. That seemed to be it. The stock hovered there for months on end. So Smith, with a solid, long-term capital gain, sold.

He felt pretty good about it, until he looked at the papers a few weeks later. GM had shot up to about $80 a share.

Many investors have had the same dispiriting experience. You find the stock, you ride it up, you sell—and then you see it go even higher.

Wall Streeters say you often can discern a definite pattern to the movement of a rising stock. Like a rocket blasting off at Cape Canaveral, they say, the stock will have three separate movements.

James Rudolph, metals analyst for the investment firm of Wertheim & Company, thinks that is especially true for the stocks in his group.

Stage one, as he describes it, is the "free ride" or "easy money" phase: This is when a stock has been beaten down and may well be lagging behind the rest of the market. For the steel stocks that Jim Rudolph follows, that period was reached in late 1982. (For Don Smith and General Motors, the same stage was reached a year earlier.)

At this point investors look at a particular stock, or an industry, and decide that it is not heading for financial ruin; it will survive. So they begin to buy.

Check out the price action of U.S. Steel in 1983. The once moribund issue moved from under $20 a share to nearly $30 during the year—a 50 percent gain. That happened, says Jim Rudolph, after investors decided that U.S. Steel was going to make it as a company.

Although this may indeed be an easy-money stage in the life of a stock, many veteran Wall Streeters note that it is not easy to make a decision to buy as the stage gets under way. "Everything you read, everything you hear, tells you the stock won't go anywhere," one Wall Streeter says.

Says David Wilson, housing analyst for the investment firm of Shearson/American Express: "At the bottom of the housing cycle you can't give away a housing stock—even though there's a long history of patterns in which you see the industry turn around and its stocks pick up sharply."

> You ride it up, you sell—and then you see it go even higher.

When stocks pick up, they are in stage two, known as "the test." Once a company has proved that it can indeed survive, the market begins to ask a second question: Can the company also make money?

This is the stage in which Don Smith made that unlucky sale, and this is when many other investors lose out in a big move. Reason: "The test" can take many months, and during this period a stock's price may move in such a narrow range that many investors give up hope.

Take those steels. While U.S. Steel was moving up, others in the group were as hot as a blast furnace. Then they seemed to cool off. As Jim Rudolph notes, though, ever since U.S. Steel announced that it was closing a lot of obsolete mills the steel stocks have seemed to be picking up again.

A good sign (maybe): The price of steel scrap has been rising sharply—usually an indication of better things ahead for the basic steel industry. That is because the mills buy scrap as a raw material, and if scrap's price is going up, the mills themselves must be processing more steel.

Sometime in the near future, Rudolph believes, prices of steel in general will start rising, and the steelmakers will show results on the bottom line. "Our core recommendation," says Rudolph, "is U.S. Steel. It could have explosive earning power in both its steel and oil businesses, and eventually, along with that, the company will be cutting down on its debt."

But watch out! All this may be preparing the way for stage three, when the interesting game gets really tough. It can be hard to buy a down-and-out stock in stage one, but it can be even tougher to sell when the fireworks are going off in stage three.

That is because everything seems to be going right. Those profits everyone had been looking for seem to be coming through. That keeps the price of the stock going up, and when investors begin to read the good news in the public press they begin bidding up the price as well.

And what does the shrewd investor do? One word, says Rudolph, sums it up: Sell.

If you really need convincing, watch for a disappointing quarter for the company. Management says not to worry—it is just a pause in the company's progress. But, to Rudolph, it is definitely a sign that it is time to bail out.

For the skeptical, it might be well to review the heady rise of those housing stocks in the past couple of years. By 1983, every estimate was that the number of houses built in America was going through the roof.

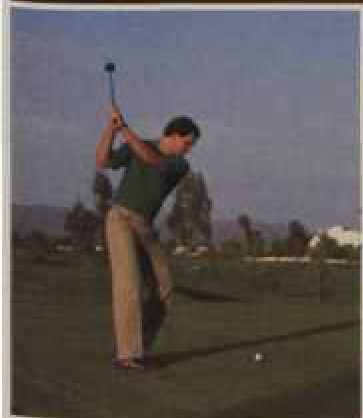
THERE WERE glowing projections from executives in the industry. Housing experts joyfully joined the chorus, noting that high interest rates had kept Americans from buying homes for a long while, assuring a pent-up demand that would keep home builders (and their stocks) booming for years.

So what happened? Amid all the euphoria, interest rates quietly moved up a notch or two. That meant fewer Americans wpuld be able to afford to take out a mortgage, and housing stocks headed for the basement.

Stage three, in fact, hit with a bang. Pulte Homes reached a high near $40 during the year but finished down around $24. Lennar—a real winner, selling around $30 a share in midyear—limped out of 1983 with its market value chopped nearly in half. □

RAY BRADY *is the business correspondent for CBS News.*








Rebellion Against Deficits

A grass-roots drive for a convention to draft a balanced-budget amendment is two states from success.

THE SUBJECT was not even on the agenda of the meeting a small group of Vermont business people held last fall to discuss local civic affairs.

John Hunter of Brattleboro, president of the Vermont National Bank, was one participant. He recalls:

"We were sitting around at the end of the meeting—it was about the hospital, things like that—when we got on to the way the federal government keeps running up spending and debts, and how nobody should operate like that.

"Someone mentioned the movement to get a balanced budget amendment to the Constitution and wondered how it would go over in Vermont.

"I said that it would sail right through, that it was just the kind of thing Vermonters would support all the way. Then some people asked, 'Why don't we find out?' We agreed to have a closer look at the idea, and—since I was the one who had said an amendment campaign would succeed—I was named chairman.

"I called a meeting to talk about the amendment, explain it. There were 26 people there, Republicans and Democrats, and they were almost unanimous in favor of going to work to get Vermont behind it."

As a result, the Vermont Tax Limitation Committee was formed to mobilize the grass roots under Hunter's leadership.

The organization's single goal is to persuade the state legislature to call for a national convention that would draft a balanced-budget amendment to the U.S. Constitution.

Thus far, a national drive that has gained momentum since its first stirrings a half-dozen years ago has result-

Kentuckian John Sawyer, seen here at the capitol in Frankfort, urges business people to work for spending limits.


Banker Jack Hunter (center) greets fellow Vermonters before a meeting to map strategy for getting the state legislature to support a budget amendment.

give the final approval necessary to submit the plan for ratification by the states.

That refusal energized the grass-roots movement, whose leaders became convinced that only the discipline of a constitutional restraint would halt the spiral of federal spending and debt, with its continuing threat of serious damage to the overall economy.

The Constitution can be changed in two ways:

• Proposed amendments approved by a two-thirds vote of the House and Senate take effect when ratified by three fourths of the states, or 38 state legislatures.

• If the legislatures of 34 states so order, Congress must call a convention for consideration of amendments, which would also take effect if ratified by 38 state legislatures.

ed in 32 states' issuing such calls. Action by 34 states is needed to put the drive over the top. Vermont is one of the states that could put it there soon. Kentucky is another.

States that have issued the call are: Alabama, Alaska, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Idaho, Indiana, Iowa, Kansas, Louisiana, Maryland, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia and Wyoming.

IN VERMONT, Hunter is traveling far and wide, urging broad support for the convention plan when it comes up at town meetings March 6, a day set aside for such meetings. Though the town meeting results will not be binding on the legislature, balanced-budget backers hope to use the show of sentiment to serve notice on the legislators that the voters have spoken on the issue.

A resolution on the convention has been bottled up in the legislature's Judiciary Committee, and Hunter is looking to a strong showing at town meetings to blast it loose.

"The big concern here in Vermont," Hunter says, "is that there doesn't seem to be any plan in Washington to solve the deficit mess. If we raise taxes without a plan to cut spending, there will be a furor. It's the system that must change."

Under the amendment provisions most widely supported, the system would change this way:

• Prior to each fiscal year, Congress would have to adopt a budget in which spending could not exceed revenues. It would take a three-fifths vote of the full membership of Congress to make exceptions.

• The rate of annual revenue increase could not exceed the increase in national income. New revenues could be levied only on a majority vote of the entire Congress.

• The debt ceiling would be capped at the level it had reached when the amendment was adopted, and a three-fifths vote of the entire Congress would be needed to raise it.

The voting provisions would make it far more difficult than it is now to approve deficit spending or higher taxes.

At present, a majority of a quorum in each house of Congress—26 senators and 110 representatives, a total of 136—can make fiscal policy decisions.

Under the amendment, it would take a combined vote of 321 members to approve a red-ink budget and to raise the debt ceiling. It would take 268 members to authorize tax increases.

The amendment is designed to make it difficult indeed for members to perpetuate the tax-and-spend cycle.

Vermont's drive is typical of how grass-roots business leadership is bringing America closer to a historic change in national fiscal policy.

Congress has shown continuing inability or unwillingness to come to grips with the soaring national debt or to approve a balanced-budget amendment on its own.

The Senate approved such an amendment in 1982, but the House refused to

Says Jack Hunter: "I shudder to think what could happen to my business and its employes if we don't get this federal budget under control. You have to be able to plan for the future of the bank. In order to plan, you need some stability.

"We certainly won't have any stability if the federal debt keeps on growing the way it has. If we don't control it, there may be nothing left to do except devalue the dollar, which has already happened to a certain extent."

His views are echoed by other business people active in the balanced-budget movement, including John Sawyer of Louisville, Ky., who recently retired as chairman of a successful wholesale distributing company.

Describing himself as an "activist for small business," Sawyer says:

"What we've got to do is keep the pressure on the politicians so they know there are people who want less government, not more."

He believes passage of the budget amendment is needed because "the political system tends to motivate more spending, and politicians have a hard time bucking the trend."

Sawyer adds: "You just can't sit back and run your business; you have to get involved."

In his case, involvement means urging the Kentucky legislature to pass a balanced-budget proposal before its mid-April adjournment.

California, Ohio, Washington and Montana are other states with strong grass-roots movements in behalf of the amendment. The strategy in those

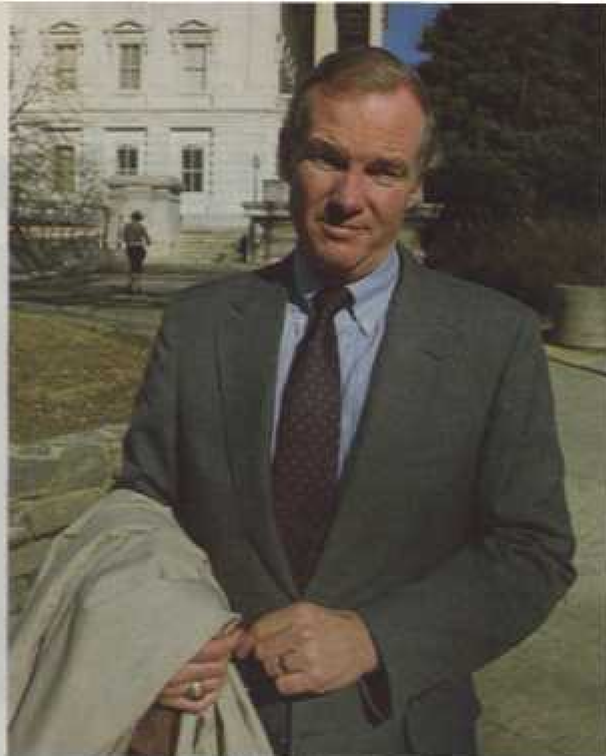
states is to work through referendum procedures. Put on the ballot for voter action would be a resolution that would express popular support for the amendment. It would also have some teeth: a provision that the legislators in the respective states could not draw pay or allowances until they approved a call for a constitutional convention.

Grass-roots supporters of calling such a convention (which would be the first since the Constitution was adopted) are not necessarily determined to go that route to achieve their goal of an amendment.

For much of the balanced-budget movement, the convention plan is not so much an actual goal as it is a means of pressuring Congress to approve an amendment itself and send it to the states.

A model convention-call resolution drafted by the National Taxpayers Union for states' adoption gives Congress an escape hatch even after the necessary 34 states have approved it: a 90-day delay to allow the national legislature time to act on its own. If Congress does act, the convention call self-destructs.

These provisions are expected to be in effect if a 34th state acts. The model resolution has won wide support.



Lewis Uhler of the National Tax Limitation Committee: Congress faces a "historic test."

CONGRESS HAS more or less been ignoring the convention-call campaign. However, the fact that the drive appears to have a good chance of going over the top in the not-too-distant future—though opponents hope to stall it—makes a change in the congressional climate on the issue likely.

James Davidson, chairman of the National Taxpayers Union, comments: "The attitude in Congress was that this is just another quaint thing that will go away. But times have changed. We have reached the point where we will get this year the two additional states needed to call the convention."

The National Taxpayers Union and the National Tax Limitation Committee have been the two principal organizations that have been lobbying Congress to pass the amendment. At the same time they have been working in the states for passage of the convention call.

In addition, more than 140 business organizations are on record in support of the amendment. The U.S. Chamber of Commerce, for example, is urging support of the amendment as part of a broad-based campaign designed to make political candidates aware of free-enterprise concerns.

Public opinion polls reveal consistent support for a balanced-budget amendment. The most recent Gallup poll on the subject showed 71 percent of the American people favoring such an amendment. Only 21 percent were opposed.

A NATION'S BUSINESS Where I Stand poll on the subject in August, 1982, showed that more than 94 percent of readers taking part favored enactment of an amendment.

Opposition comes from two quarters: From conservatives who are opposed to tampering with the Constitution and from liberals who fear such an amendment will deny Congress enough flexibility in taxing and spending.

Organized labor is behind an effort in Maryland to get the legislature to rescind its approval of a convention call.

Sen. Orrin Hatch (R-Utah), chairman of the Subcommittee on the Constitution, plans hearings on the amendment, which could reach the Senate floor by late spring. Passage is considered certain, in view of the Senate's earlier approval.

But in the House, Speaker Thomas P. O'Neill (D-Mass.) remains adamantly opposed to the amendment. Though it won a majority in the House in 1982, it fell 46 votes short of the two-thirds approval needed.

Rep. Barber B. Conable (R-N.Y.), senior Republican on the tax-writing Ways and Means Committee and a strong advocate of the amendment, is urging states to keep up pressure on the House by passing convention calls.

The best hope for congressional action this year, he says, is early Senate approval of an amendment resolution. Such timing would give amendment supporters in the House an election campaign opportunity to call voters' attention to the issue as a litmus test of convictions on spending reform.

The election year environment and the strong public support that has been shown for the amendment would make such strategy workable, Conable and others in the House believe.

If Congress continues to ignore the states' action, it could face larger problems beyond being pre-empted on the constitutional amendment process.

Although the Constitution requires the calling of a convention if one is requested by enough states, it provides no procedural details on such a meeting. There would have to be determinations on a site, the process of selecting delegates, their number, the selection of convention officers, the agenda, the convention's duration and the financing.

There have been proposals before Congress for more than a decade to establish procedures for a constitutional convention. One such recommendation came from the American Bar Association in 1973. But nothing has been done.

All 26 amendments to the U.S. Constitution have been enacted through congressional initiatives. But the convention approach has not been ignored entirely. At one time or another, every state has recommended a convention to deal with a specific issue of current concern.

IT WAS THE threat of conventions that prompted Congress to approve amendments for direct election of senators, repeal of Prohibition, the two-term limit on Presidents and presidential succession in case of disability.

In 1967 a movement to call a convention to adopt an amendment reversing the U.S. Supreme Court's one-man, one-vote decision gained the support of 32 states. The drive never could gain the additional two states needed.

As far as the balanced-budget amendment is concerned, however, interest is increasing, not receding.

The continuing series of massive federal deficits, an annual federal budget approaching $1 trillion, a national debt that has doubled in just the past six years to $1.4 trillion, and interest rates kept stubbornly high by such fiscal developments make the issue one that just will not go away.

Lewis Uhler, a California real estate developer who heads the National Tax Limitation Committee, sums up the situation on the balanced-budget amendment this way:

"The stage is being set for a historic test of Congress' willingness to limit spending." □

PHOTO: DAVID WOODDELL

PHOTO: DAVID WOODDELL

Two-Step Path To Budget Control

The Reagan strategy: Make a down payment on the deficit now, save big changes for next year.

IMAGINE annual economic indicators like these: interest rates on 91-day Treasury bills, 5 percent, a little more than one half of today's rate; real growth, 3.9 percent, about one fifth less than now; inflation, 3.6 percent, about the same as today; unemployment, 5.7 percent, down about one third from current levels.

This forecast is for 1989, the final year covered by the Reagan administration's five-year economic outlook. This official projection, released in February, shows the nation's economy growing stronger throughout the balance of the decade.

The forecast has the gross national product—the broadest measure of economic performance—growing 5.3 percent this year and 4.1 percent in 1985, with growth over the following four years averaging about 4 percent. Beginning next year, inflation, interest rates and unemployment are forecast to be lower in each succeeding year.

But this "plausible picture of our economic future" cannot become reality, the administration's chief economist, Martin Feldstein, told Congress in February, unless two big conditions are met: Congress must make a three-year, $100 billion "down payment" on projected federal budget deficits this year, and it must agree to major budget surgery in 1985.

And that is what the administration is shooting for. The success of the two-step strategy will hinge largely on the outcome of behind-the-scenes bipartisan negotiations over the next several months between Capitol Hill leaders and the White House—and on choices made at the ballot box in November.

This two-step approach to budget control appears to herald a victory for business and individual taxpayers alike. Conservatives hope for a more desirable fiscal policy mix in 1985 than they could get in an election year.

The administration's installment plan for closing the gap between deficits and revenues is designed to bring maximum political pressure on Congress. But the U.S. Chamber of Commerce and other business groups are concerned that the bipartisan negotiators, in their zeal to pick up $100 billion in deficit savings, may be tempted to roll back the business tax cuts and personal tax reductions that are responsible for the robust economic expansion.

Furthermore, the Reagan administration could be pressured, for the sake of congressional compromise, into agreeing to tax increases before opportunities for spending cuts are exhausted, warns David Franasiak, manager of the Chamber's tax policy section.

This concern is shared throughout the business community. "The answer to the budget deficit has to be reduced spending," says Roger Smith, chairman of General Motors Corporation.

Until now the administration has staunchly opposed calls for higher taxes. Its tax policies are the major reason for the strength of the current economic expansion, says Treasury Secretary Donald Regan. These policies are in part responsible, he says, for the fastest decline in the unemployment rate in more than 30 years.

Only three years ago, every corporate treasurer was struggling with double-digit inflation and out-of-date depreciation rules. Today inflation is under control, and the new accelerated cost recovery system has spurred a faster-than-normal rise in business investment and contributed to a long overdue improvement in corporate balance sheets.

FOR BUSINESS, the administration's 1985 tax proposals would mean that consumers would have plenty of money to spend. Tax bracket indexing would take effect next year, as scheduled; disposable income thus would not be eroded in the future because taxpayers were being pushed into higher brackets by inflation. The full benefits of the sweeping overhaul of depreciation rules, as enacted in 1981 and modified in 1982, would also remain in place.

This, Regan says, means that companies will be able to finance a larger share of their investment in new equipment with internally generated funds instead of borrowed money.

Tax code changes that would raise an estimated $33.5 billion in new revenue over the next three years are aimed at closing so-called loopholes and eliminating obsolete provisions.

Big money-raisers would be a $2,100 annual limit on the individual deduction for employer-paid health insurance; a

PHOTO: DAVID VALDEZ

The warm greeting that House Speaker Thomas P. O'Neill gave President Reagan at a joint session of Congress (center) soon gave way to bickering over fiscal policy. Their respective allies in the debate include House Majority Leader Jim Wright (right) and Rep. Delbert Latta (left), senior GOP member of the House Budget Committee.

cap on the value of nontaxable employer-paid benefits; restrictions on use of tax-free industrial development bonds; and a crackdown on a host of what Secretary Regan calls "abuses" involving real estate tax shelters and corporate accounting practices.

The Treasury Department has also proposed some cuts in the tax burden. Savings would be encouraged by an increase, to $4,000 from the present $2,250, in the ceiling on annual Individual Retirement Account contributions for couples with only one working spouse. A deduction of $1,000 annually per child would be permitted for contributions to educational savings accounts. For business, Treasury has proposed extending for three years tax credits for additional corporate research and development and extending for one year tax credits for hiring the unemployed.

Treasury says the net effect of such tax increases and decreases—more than two dozen in all—would be to increase the tax base 1.4 percent. Even so, it says, administration-initiated changes in the tax laws since 1981 will result in a projected net reduction of $971 billion in tax payments over the eight years ending in 1989.

On the outlay side of the government's balance sheet, savings will be harder to come by. Nondefense domestic spending is now under control, says Office of Management and Budget Director David Stockman, after nearly three decades in which it shot up an average of 8.5 percent annually, rising from 4 percent to 15 percent of gross national product between 1954 and 1981.

The administration's new spending plans would cut that figure to 11.6 percent by 1989. Even if requested cuts in entitlement programs, totaling $29 billion over three years, are rejected, nondefense domestic spending will fall to 12.3 percent of GNP in five years. Because of cuts enacted since 1981, says Stockman, spending in 1985 will be $70 billion less than it otherwise would have been.

Still, total projected spending in fiscal 1985 of $925 billion will be about $72 billion more than in fiscal 1984. Spending for the nonmilitary items on which Congress votes every year will rise $3 billion. Entitlement outlays—for such programs as Medicare, food stamps and farm price supports, where spending goes up automatically—will rise $22 billion. Defense spending will go up $47 billion.

THE BIPARTISAN budget negotiations, requested by Congress and agreed to by the President, are aimed at squeezing $100 billion out of deficits that could exceed $540 billion over the next three years. Budget Director Stockman calls that task "doable and essential," and, he says, "all issues are on the table—domestic and military spending and revenue increases."

After fighting an inconclusive three-year battle over spending, Stockman now admits that only the threat of an impending economic downturn will cajole Congress into cutting spending programs defended by powerful special interests. He acknowledges that structural reforms—adjustments to a score of entitlement programs that benefit the middle class without regard to need—will have to wait until after the voters' verdict in November.

The full dimension of the spending problem was presented to the House Budget Committee by Congressional Budget Office Director Rudolph Penner. "If the budget policies are not changed," he said, "deficits will rise from $190 billion in 1984 to $326 billion in 1989."

Despite this stark warning, there is not a lot of optimism that these policies will change. "I don't see anything happening in a bipartisan way this year," says Rep. Delbert Latta of Ohio, the committee's ranking Republican.

The U.S. Chamber of Commerce has proposed restraints on spending for entitlement programs and in other areas as well. The Chamber's chief economist, Richard Rahn, has outlined a seven-point plan aimed at:

- Limiting Medicare and Medicaid cost increases to the rise in the overall inflation rate, with an adjustment for growth in the number of beneficiaries.
- Limiting automatic cost-of-living adjustments for entitlement programs.
- Freezing federal pay for one year and then limiting annual increases to 3 percent.
- Limiting the defense buildup to a 7 percent annual rise rather than the 13 percent the administration wants.
- Making more cuts in the domestic spending set annually by Congress, along the lines of the Grace Commission report (see article on page 33).
- Including all government and nonprofit organizations' workers in the Social Security system beginning next year, as opposed to extending coverage only to new hires.
- Placing strict limits on the size of off-budget federal loans and loan guarantees that distort credit markets' allocation of capital.

If these proposals were enacted, Rahn says, they could reduce the budget deficit, including off-budget spending, to less than $50 billion by fiscal 1989.

Senate Finance Committee Chairman Robert Dole (R-Kans.) notes that a deadline facing the deficit cutters will occur in May, when legislation extending the temporary debt ceiling comes up for renewal. Dole warns that unless progress on the deficit is apparent, there may not be enough votes in the Senate to pass that extension. If so, the government would not be able to pay its bills. That could turn out to be the crisis Congress needs before it can muster the political will to get serious about spending cuts. □

—Peter A. Holmes

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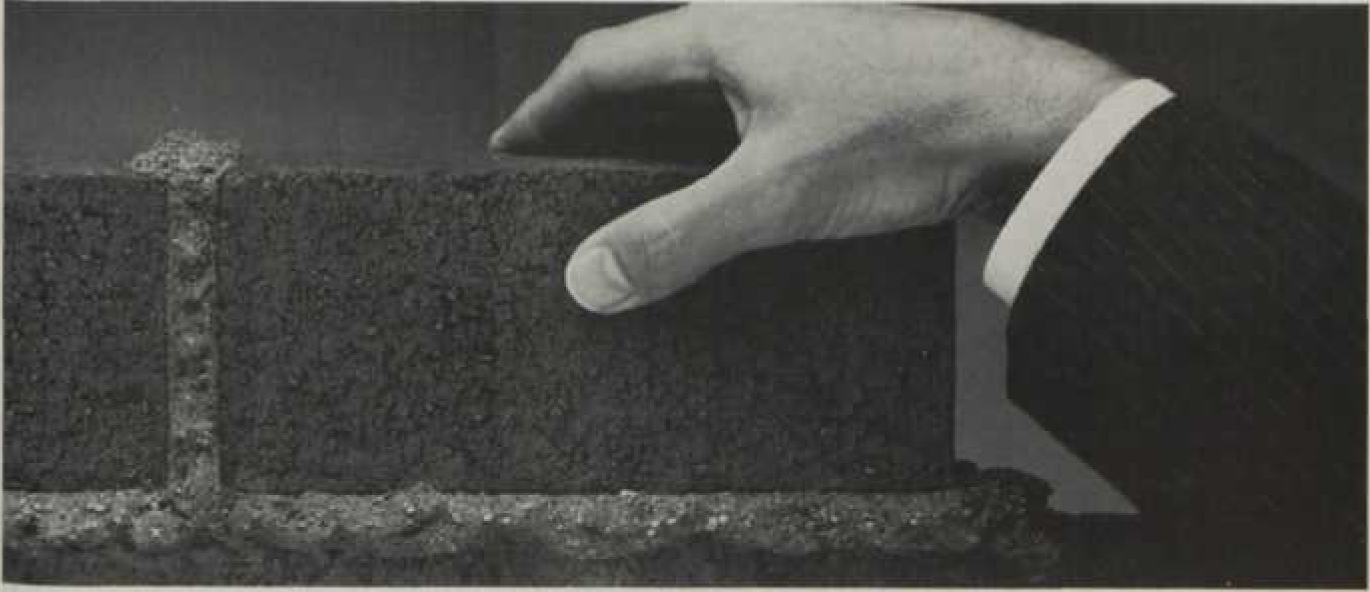

In 1958, with $6,000 between them, two 21-year olds, Paul H. Abrams and Isaac N. Weiner, started a company they called PIKE Construction Co. They also started a relationship with First National Bank of New Jersey, that helped serve as the foundation for the highly successful business that PIKE was about to become.

The groundwork was laid not just with that first big loan that gave them the cash they needed to meet expenses and obtain required performance bonds but with the day-to-day business advice and financial guidance provided by their commercial officer from First National Bank. "It was that close personal relationship we had with the bank that got us through those early years," stated Ike Weiner. "In fact, they were invaluable in helping plan our growth needs."

Since that time, PIKE has been commissioned to build virtually every type of structure—commercial, institutional, recreational, office, parking, multiple housing, manufacturing, religious and industrial. Some notable examples: the 1,000 car Ellison Street Parking Facility in Paterson, Montclair State College's Bohn Hall, a 400-unit dormitory, the YM-YWHA of North Jersey in Wayne and the Ocean Cove, an 11-story luxury condominium now being built in Long Branch, New Jersey.

Meanwhile, that same working relationship between PIKE and the bank has remained as close as ever. "The bank is like a part of our business," says Ike Weiner. PIKE, whose accounting methods include maintaining a separate account for each project, counts on the bank to handle all 30 to 40 PIKE accounts smoothly. The partners don't have to supervise their banking business on a day-to-day basis. And the bank, of course, sees to it that each account is managed accurately.

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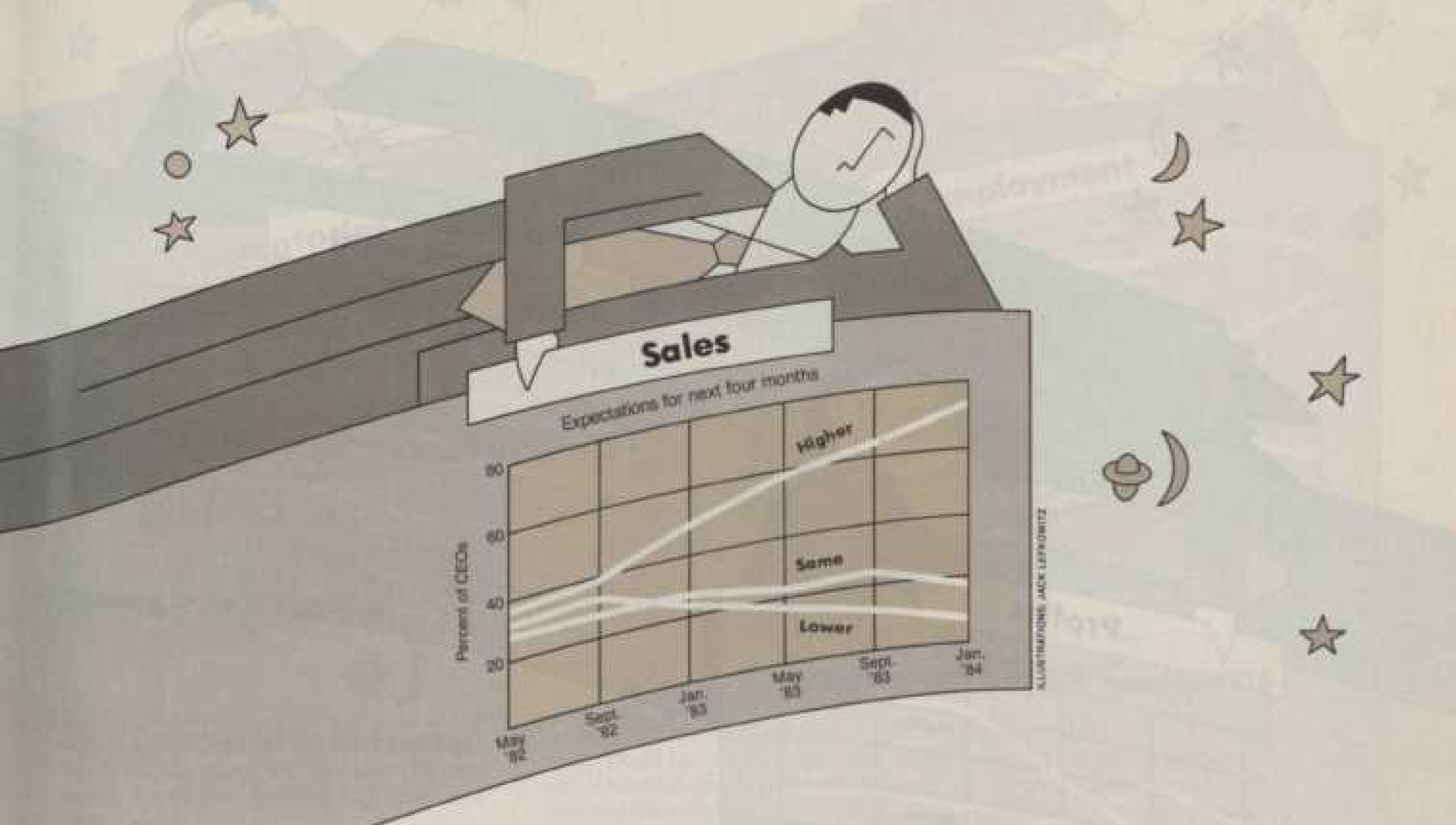


CEOs' Forecast: Better Than Ever

Expectations of increases in sales and profits are the highest in years.

This is a report on the latest Heller/Roper Small Business Barometer, a survey of chief executive officers of more than 1,000 firms that have between 40 and 500 employes.

The survey, designed primarily to show hopes and concerns for the first four months of 1984, was conducted in January by the Roper Organization for the Heller International Corporation's Small Business Institute.

HELLER/ROPER surveys are piling good news on top of good news. General optimism among small business chief executive officers about their companies' prospects, which began growing in January of last year, is now more widespread than at any time since the first survey was conducted in January, 1980.

This optimism has gained strength in region after region and among businesses of all types since the most recent survey, conducted last September.

Near-term expectations of increased sales, profits and profits as a percentage of sales—as compared with the same period in the previous year—are at new highs. So is the proportion of CEOs planning to add to their payrolls.

More firms plan to increase borrowing. A record proportion of CEOs feel that their firms' inventories are at about the right levels.

And the waiting time for receivables has shortened somewhat since September, though it is still higher than it was last spring.

In addition to being asked to outline the prospects for their companies in the first four months of 1984, CEOs were presented with a list of 18 business problems. How much of a concern, they were asked, is each for their companies? Judging by the replies (see box), finding competent help is the toughest problem.

Sales

Asked to compare the level of sales they expect for their firms in the first four months of this year with sales in the same period of last year, 74 percent of CEOs surveyed predict increases, 19 percent see no change and a mere 6 percent predict declines.

This brightest four-month sales forecast ever registered by the Heller/Roper Barometer—the previous high was recorded last September and reported in the November NATION'S BUSINESS—is in marked contrast to forecasts in the recession year of 1982, as shown in the sales chart accompanying this article.

Expectations of increases are pervasive—they are held by 71 percent of CEOs in the East, 74 percent in the Midwest and 75 percent in both the South and West. (The survey does not cover Alaska and Hawaii.)

Similarly, 77 percent of wholesalers, 76 percent of retailers, 74 percent of manufacturers and 69 percent of service firm CEOs are looking forward to higher sales.

A breakdown by size shows that

CEOs of firms with annual sales of more than $5 million are particularly optimistic—78 percent predict increases. Among firms with lower sales levels, 68 percent make the same prediction.

Profits

Sixty-two percent of the executives say their firms' profits will be higher than in the same four-month period last year, 27 percent anticipate no change and 8 percent think they will be lower. (Not all CEOs answered all questions.) This represents a major gain from a year earlier, when 39 percent expected higher profits and 30 percent foresaw declines. The previous high in profits optimism was recorded last September.

In the South, 66 percent predict higher profits, making Dixie the most optimistic region. The figure is 62 percent in the Midwest, 60 percent in the West and 56 percent in the East. Sixty-six percent of both manufacturers and retailers, 57 percent of wholesalers and 52 percent of service firm CEOs anticipate profit increases.

There are more optimists, proportionately, among CEOs of companies with annual sales above $5 million than among those who head smaller firms—66 percent compared with 56 percent.

Though expectations of profits as a percentage of sales are not as favorable, they too have improved appreciably over the past year. Forty-nine percent of CEOs say they expect more profits as a sales percentage than in the same four-month period last year, while 36 percent anticipate no change and 10 percent a decrease.

Last September the figures were 43 percent, 35 percent and 17 percent. Last May they were 41, 35 and 20 percent. In January, 1983, they were 32, 35 and 29 percent. In September and May, 1982, they were, respectively, 24, 32 and 40 percent and 26, 33 and 36 percent.

The proportion of those expecting higher profits as a percentage of sales is about the same as the national figure in all regions and among all types of businesses except wholesalers—43 percent of them anticipate an increase.

Borrowing

Projected borrowing levels have risen somewhat after a year of little change. Twenty-one percent of those surveyed in January say they plan to increase borrowing above levels in the same four-month period of 1983. This compares with 17 percent who anticipated increased borrowing last September, 18 percent in May and 16 percent in January, 1983.

The largest increases since September in forecasts of higher borrowing are in the East (from 13 to 23 percent) and West (20 to 25 percent). In the South the figure has gone from 16 to 19 percent and in the Midwest from 17 to 19 percent.

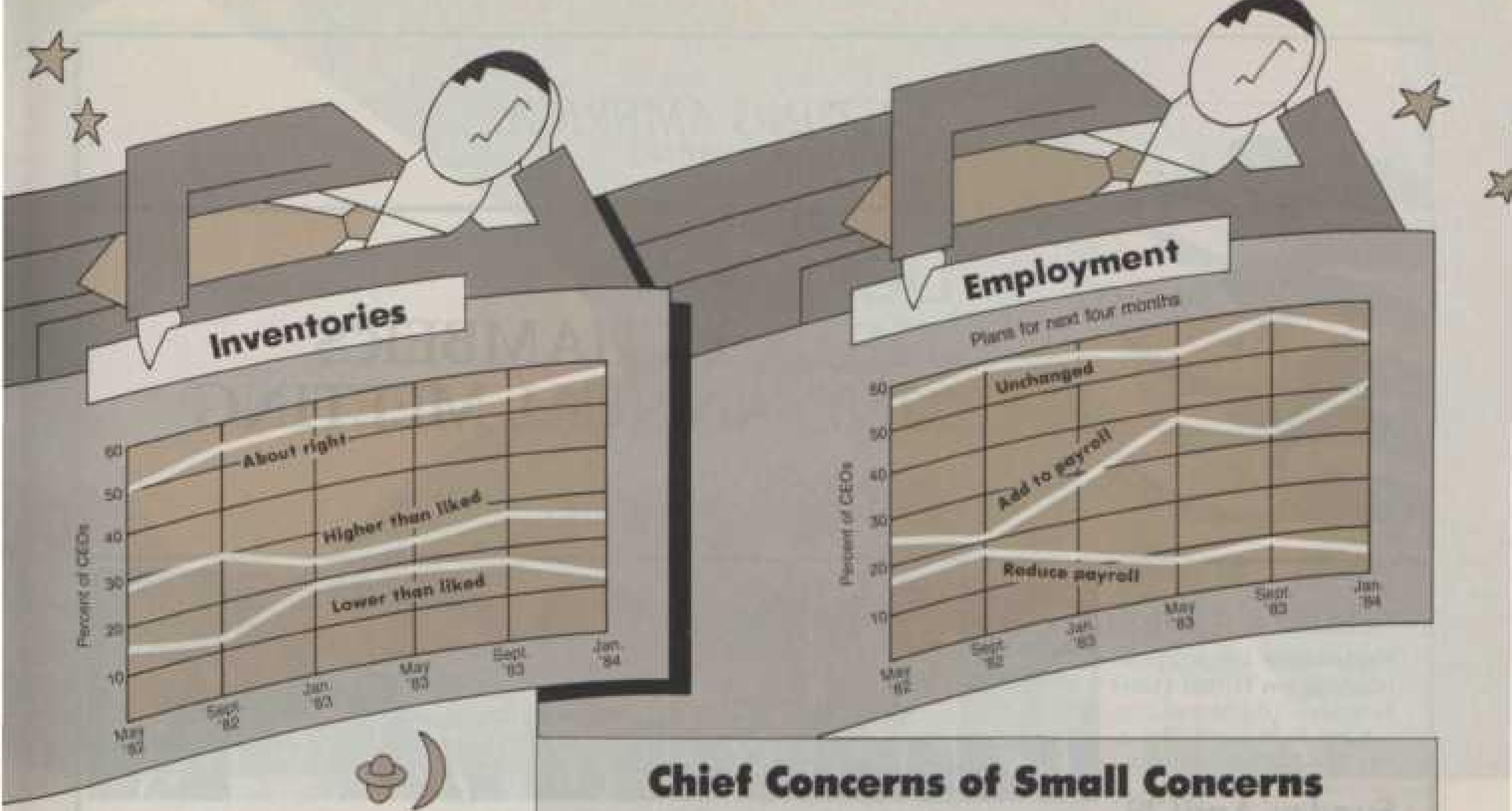
More CEOs in all types of businesses plan increases in borrowing. The percentage has risen from 18 in September among manufacturers to 25, 18 to 21 among wholesalers, 13 to 16 among retailers and 18 to 22 among heads of service firms.

Inventories

Satisfaction with inventories has risen while concern over inventory inadequacy has fallen. But there has been little change in the proportion of CEOs who believe their inventories are too high. Twenty-six percent now say that they are excessive, 58 percent that they are about right and 13 percent that they are too low.

Retailers are the most satisfied with current inventories—65 percent say that they are about right, 20 percent say that they are too high and 13 percent that they are too low.

As in previous surveys, wholesalers are most likely to describe their inven-



tories as too high (45 percent) and least likely to say they are too low (12 percent). Forty-two percent say they are about right.

Among manufacturers, 25 percent say that inventories are too high, 14 percent that they are too low and 57 percent that they are about right.

Employment

Small business CEOs are planning a four-month hiring spurt. Forty-one percent report that they expect to add to their payrolls, compared with 32 percent who had such plans last September. Fifty-three percent expect to maintain the current size of their payrolls and 6 percent to reduce them.

The employment low point in Heller/Roper Barometers was registered in May, 1980, when only 22 percent were planning to increase payrolls. Twenty-three percent were planning reductions then and 54 percent no change.

Manufacturers now are far more likely to be planning to add to their payrolls (51 percent) than are service companies (38 percent), retailers (32 percent) or wholesalers (30 percent).

Receivables

The length of time small firms must wait before collecting what customers owe them fluctuated within a range of 2.5 days in the 12 months before the survey. The median waiting period, on the basis of CEO responses in January, is now 36.4 days. Last September it was 38.1 days and last May, 35.7. In January, 1983, it was 38.2 days.

By comparison, the median waiting period fluctuated within a range of only 0.7 days during 1982. □

Chief Concerns of Small Concerns

What problems weigh most heavily on small business people? The latest Heller/Roper Barometer gives a noninclusive insight.

Eighteen problems were listed for the 1,000-plus small firms' chief executive officers taking part in the January survey. They were asked to state whether each problem concerns them and, if so, whether it is of major concern or merely something of a concern.

The problem checked off most is that of finding competent help—a concern of 74 percent of the CEOs. Thirty-nine percent say that it is a major concern, 35 percent that it is something of a concern.

Runner-up on the CEO worry list: federal tax forms and regulations, checked off by 71 percent. And No. 3: motivating employes.

Customer or employe theft is checked off as a concern by 45 percent of respondents as a whole but by 65 percent of retailers and 53 percent of wholesalers.

Only 14 percent of respondents as a whole say getting a start in exports is a concern of theirs, but it is cited by 23 percent of manufacturing companies' CEOs. Nineteen percent of all respondents cite export problems caused by the strength of the U.S. dollar, but it is cited by 31 percent of the manufacturing executives.

Results of the poll, in brief:

	Of Major Concern	Of Some Concern
Finding competent help	39%	35%
Federal tax forms and regulations	33	38
Motivating employes	31	38
State and local tax forms and regulations	28	40
On-time delivery of parts, supplies, etc.	27	31
Workers' compensation	28	29
Meeting competition of much larger firms	25	32
Slow payment of money you are owed	22	33
Occupational Safety and Health Administration regulations	16	35
Interest rates for long-term financing	24	26
Shoplifting or other theft by customers, employes	13	32
Interest rates for short-term financing	15	28
Actual losses of money you are owed	14	29
Availability of long-term financing	13	19
Availability of venture capital	8	11
Availability of short-term financing	6	13
Export sales problems caused by the dollar's high value	10	9
Getting a start in exporting	5	9

J. Peter Grace, chairman of the Private Sector Survey on Cost Control, offers Congress a blueprint for management reforms and cutting costs.

PHOTO: DAVID VALDEZ

The Saving Grace

A private sector commission has pointed to ways the government can save hundreds of billions. Now the job is to follow through.

By Peter A. Holmes

THE INCOME TAX burden on the typical family of four went up 56 percent during the 1970s, and balancing the federal budget with income tax increases this year could mean raising that family's taxes an additional 25 percent.

If that is sobering, consider these trends:

- It took 186 years for the annual cost of the federal government to exceed $300 billion. Eight years later, in 1983, it was $800 billion; at this pace, outlays will top $5.5 trillion by the turn of the century, with the government consuming over one third of total economic output.
- The federal budget deficit, $1.6 billion in 1965, will hit $2 trillion by the year 2000 at present growth rates.
- Of the Free World's six largest economic powers, the United States ranked second to last between 1973 and 1982 in growth in investment and industrial output as a percentage of gross national product, and it ranked last in productivity growth.
- Compared with U.S. levels for 1973-82, government spending in relation to total output was 46 percent lower in Japan; private investment was 75 percent higher; output grew 49 times as fast; and productivity rose 4.6 times as much. Interest rates in Japan are 5 percent, less than half those in the United States.

In short, U.S. economic problems worsened as federal spending soared. Tax and spending policies mean that a growing share of the nation's wealth went to the government, crowding out private investment. Unless something is done to change this trend, today's concerns over interest rates and access to capital may seem trivial in contrast to those of the next decade.

In January the President's Private Sector Survey on Cost Control—known as the Grace Commission after its indefatigable chairman, J. Peter Grace, chairman of W.R. Grace & Company—presented a 49-volume blueprint for change.

Applying standards common to private enterprise, the more than 2,000 volunteers working for the commission documented thousands of examples of red tape, inefficiency and waste.

For example:

- Claims processing clerks at the Social Security Administration receive 12,000 revisions to their program operations manual each year. If they work by the rules, clerks have just 16 seconds to read and understand each change.
- What takes 47 days and involves 55 to 60 people? Answer: Preparation of a letter requiring the signature of the Secretary of Health and Human Services.
- Last year the Navy paid $100 each for a spare part that had cost its supplier 5 cents.

In all, the 18-month scrutiny of the way the government works produced 2,478 recommendations for cutting costs. If implemented, the recommendations would prevent the accumulation of $10.5 trillion in additional public debt over the next 17 years, according to projections made for the Grace Commission by Data Resources, Inc.

The projected benefits are substantial: Interest rates would be 23 to 37

percent lower, the inflation rate would be 14 percent lower, and growth in industrial production and investment would be up by nearly two thirds.

Congress and the administration can avoid the "horrendous prospect" of huge debts and all but wipe out the budget deficit by the end of the century, Peter Grace told the President, "without raising taxes, without weakening America's needed defense buildup and without in any way harming necessary social welfare programs."

For his part, President Reagan pledged "not just talk but aggressive actions on your recommendations."

Many commission proposals need the backing of such congressional leaders as Sen. Pete Domenici (R-N.M.).

Here is how the Grace Commission numbers add up: Assuming a borrowing cost of 11 percent and long-term inflation rate of 6 percent, a dollar permanently cut from the budget means a compounded saving of $71 over 17 years. Each dollar not spent is a dollar not borrowed. So $100 billion cut from the budget deficit this year could result in cumulative savings of $7.1 trillion through the year 2000.

The $424 billion the Grace Commission says can be saved over three years is the present value of future saving. It breaks down as follows: Correcting inefficient and mismanaged federal programs, $241 billion; eliminating waste, $161 billion; and reorganizing government functions and making other reforms, $21.3 billion.

Arguing that raising taxes is an inappropriate way to solve the deficit problem, the commission produced figures showing that federal income taxes on the median-income family have risen 246 times in 36 years—from what now seems an incredible $9 in 1948 to $2,218 in 1983. "This is runaway taxation at its worst," Grace told the President.

HIGH TAXES are blamed in the report for costing the Treasury $100 billion in lost revenues last year alone, because a growing number of taxpayers have simply stopped paying.

Many reports by citizens' groups gather dust on the shelf, but this study will be different, judging by activity at the White House and throughout the government, and by plans the Grace Commission is drawing up.

"The cardinal sin that we could commit in the private sector is not to follow through," declares J.P. Bolduc, the survey's chief operating officer. He is now putting in place what he calls a "fully integrated strategy" to alert citizens to the debt problem. "Most people," Bolduc says, "do not understand that the debt is not the official $1.38 trillion but $4.2 trillion."

The larger figure takes into account the unfunded liabilities of more than 50 government retirement programs. The two largest—the civil service and military retirement systems—would have unfunded liabilities of more than $1 trillion if they were required to meet government standards for private pension plans. And if politicians' promises to present and future retirees were fully funded today, they would add nearly $3 trillion to the statutory debt.

Federal pension costs have been growing 16 percent annually for the last decade. Public pensions that provide early retirement and are fully indexed to offset inflation, the report says, are between three and six times more generous than private pension plans. Three-year savings—with a present value of $58 billion—are possible, the report estimates, if benefits are brought more in line with those in the private sector.

Other targets of the Grace cost-cutters include laws that inhibit flexible work schedules and require private firms with contracts for public works and federal services to pay the "prevail-

One target of the Grace Commission: federal laws that require payment of "prevailing wages," thus raising construction costs.

The commission wants to close some taxpayer-subsidized military commissaries that have outlived their purpose.

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ing wage." Repealing the Davis-Bacon, Walsh-Healey and Service Contract Acts would, the survey estimates, save $11.5 billion in construction and procurement costs over three years.

Shutting down many of the military commissaries operating in the continental United States, the survey says, could save $328 million annually. Many no longer meet the criteria that led to their establishment—such as location in areas where there are few or no private stores. The survey points out that about 60 percent of shoppers at these facilities are retirees.

THESE EXAMPLES are only some of the highlights in volumes detailing ways to eliminate unnecessary subsidies, improve management efficiency and bring government practices in line with the private sector's. Since lots of money is involved, entrenched special interests that now benefit from government largess can be expected to oppose them.

An advertising campaign is being prepared to inform civil servants, special interests, the public and Congress of the dimensions of this huge claim against taxpayers of present and future generations. Editors are at work boiling down the Grace Commission's findings into a 20-page booklet that companies can distribute to their shareholders, employes and customers.

Peter Grace's schedule looks like that of a politician. He plans about 30 speeches in 13 states over the next four months. Others on the survey's 161-member executive panel also plan a heavy speaking schedule before chambers of commerce, civic clubs and trade groups. Their message: Congress must cut spending.

"The bottom line," says Bolduc, "is communications, awareness and a greater public understanding of the mess we are in. Before that happens, Congress will not feel compelled to cut spending."

After President Reagan appointed Grace to head the commission in March, 1982, plans to monitor the survey's progress were drawn up. Last spring, the White House cabinet council on management and administration started setting up a computerized system to track implementation of the survey's preliminary findings.

Craig Fuller, assistant to the President for cabinet affairs, is in charge of coordinating review of the survey's 2,500 recommendations in 750 issue areas. That process involves all agencies and departments, as well as the Office of Management and Budget and the White House's Office of Policy Development.

Between April and November, 1983, as draft recommendations from 38 task force groups were completed, the bureaucracy was asked to assess the feasibility of implementing those recommendations. At the end of a two-stage review process, final reports went to various cabinet councils that have jurisdiction over the affected agencies.

"At that point," says Fuller, who has two personal computers in his basement office in the west wing of the White House, "the departments were given the task of developing a plan with specific milestones, so we can continuously track actual progress toward implementation. If the milestones are not being met on time, then we can look at the problems."

In February an overall appraisal of the survey's final recommendations was scheduled, with specific proposals on how to go forward. "The payoff is managing the process," says Fuller. "Our goal is getting the recommendations actually implemented over the next three years."

To date, about a third of the Grace Commission's recommendations have been subjected to White House review. About 85 percent of these have been or are being implemented. Savings amounting to $6 billion are included in the 1985 budget. Major items: a $4.7 billion saving from getting the government to collect money it is owed more quickly and to earn more on the $2 trillion that flows through its accounts annually. Other savings would come from cutting 40,000 federal jobs, shutting down 51 surplus printing plants and using government-issued rather than private credit cards.

But the cost-cutting initiatives in this year's budget are only the beginning. The government's top management expert, Joe Wright, deputy director of OMB, is preparing reforms that will cut across all agencies, consistent with the Grace Commission's recommendations.

"The problem," Wright says, "was that with 322 incompatible financial accounting systems and 19,000 computers, many of which couldn't talk with each other, we had a hard time even getting a handle on things."

This effort to coordinate the tools of management will involve these disciplines: planning and budgeting, financial accounting, payroll, personal and real property inventory systems, management information systems, and automatic data processing and communications.

TURNING THE world's largest conglomerate around takes time. It will be another two years before the remaining two thirds of the Grace Commission's recommendations are reviewed and incorporated in the President's annual budget.

Critics downplay the potential for savings in the near future. OMB Director David Stockman believes it is not politically feasible to implement many of the proposed savings because of resistance from Congress. Rudolph Penner, director of the Congressional Budget Office, says the commission's estimates for savings are exaggerated.

Senators and representatives eager to make a good impression on voters back home who are worried about profligate spending now have a plan showing how management of the federal government can be improved. But the initial response to the survey's recommendations reveals that 1984 may be just another season of business as usual on Capitol Hill.

Reps. Jim Jones (D-Okla.) and Delbert Latta (R-Ohio), the chairman and ranking Republican on the House Budget Committee, are not very optimistic. "If the American people fear the deficits will choke off the recovery before the election," says Jones. "Congress will do something. Otherwise, it will do nothing." Latta agrees, but he also thinks the Democrats, in the meantime, "will try to pass all the spending measures they can, in order to appeal to the various special interests."

Despite record deficits and a lot of political posturing over who is responsible for mortgaging America's future, one fact remains. Congress is ultimately responsible for spending, and so far it shows no signs of curbing a habit the nation can no longer afford. □

Who Paid for It?

The report of the President's Private Sector Survey on Cost Control was paid for by the private sector.

More than 850 corporations, individuals and foundations picked up the tab. The time of the approximately 2,000 executives on loan to the survey was valued at $75 million. A random list of companies that lent executives to the project reads like a who's who of American industry, commerce and finance: Goodyear Tire & Rubber Company, Aetna Life & Casualty Company, PPG Industries, the Jewel Companies, First Boston Corporation, Borden, Inc., and W.R. Grace & Company.

Another $3.5 million in cash was contributed to pay for running the survey's Washington office. The most generous giver: Roger Milliken, president of Milliken & Company, a New York-based textile manufacturer. Other large cash contributors were the MacArthur Foundation, the Olin Foundation and Baxter-Travenol Laboratories.

The New Roommates In Executive Suites

All the way to the top, managers personally are using personal computers.

By Mike Lewis

A desk-top computer and electronic mail help Raymond Marshall, a senior vice president of General Electric Information Services, send memos around the world.

FOR YEARS Rick Cornett of R.J. Reynolds Industries in Winston-Salem, N.C., heard that computers were going to change the way business was conducted. But they had no effect on his job—coordinating production scheduling for special tobacco products.

Then, in the fall of 1982, he began using a personal computer. How does he like it? "Every day we find some new application for it," he says.

One of the major applications is combining department budgets into plant budgets. He also uses the computer's word processing capabilities in writing memos, and, he says, "it is easier for me to make presentations with the graphics capability" that is part of many software packages.

Personal computers are sweeping into the offices of American business in ever-bigger waves. Last year 995,000 personal computers were shipped to U.S. firms. The cost of that hardware—the machinery itself, excluding the software that makes it work—was $6 billion.

If those numbers impress you, consider this:

It is estimated that this year businesses will buy 2.55 million personal computers costing $8.9 billion. Next year they are expected to buy 3.5 million at a cost of $12.1 billion—more than the total dollar figure for all previous years through 1983.

As such figures from market analysts suggest, personal computers are becoming indispensable tools for managers in every field.

Robert Torgler, in charge of IBM's efforts to assist companies that are buying personal computers for their professionals, says that computers are "giving professionals the capability of doing things themselves that until now were in the purview of the data processors."

The implications for the economy—and for America's position in the world—may be profound. Torgler cites the case of a big manufacturing company that recently placed an order for more IBM personal computers than he could imagine being used. The company's representatives told him that only through the improved efficiency they hoped to achieve by computerization could their firm compete with Japanese corporations.

Future Computing, Inc., of Richardson, Tex., found in a recent survey that America's 2,000 largest companies bought about 24 percent of the personal computers purchased for office use in 1982. That percentage is rising, even though medium-size and small businesses also are accelerating their use of personal computers.

Financial institutions in particular have become heavy users of personal computers. "They've become just as common as typewriters," says Frederick Allen, a vice president in corporate communications at Morgan Guaranty Trust in New York.

RON MASSEY, a transit analyst for Dominion Bankshares, a Roanoke, Va., holding company that owns 10 banks, points to $100,000 saved during the first 12 months he used his personal computer to reduce the float on checks processed by Dominion.

The computer helps monitor the many factors that affect the cost of check clearing, including the banks on which checks are drawn, transportation costs and the size of the fees involved.

"What used to take an analyst up to two weeks can be done in an hour now," says Massey. As a result, studies done only occasionally in the past are

Chemical Bank's Joseph Balderi watches as Alison Blain shows an employe how to use a personal computer as part of the bank's training program for professionals.

now conducted regularly, and managers using personal computers test scenarios to see what happens when variables change.

Chemical Bank in New York began introducing personal computers into its operation in October, 1982. By the end of this year, says Charles Lybrook, a vice president, 500 middle and senior managers will have personal computers in their offices.

The bank has even set up its own in-house computer store, selling hardware and software to employes at the reduced price it gets through volume purchases.

LYBROOK, WHO has overseen the computer training of more than 2,000 bank employes, views the personal computer as part of a three-tiered computer operation at the bank, with the personal computers sometimes tied into larger departmental computers and occasionally drawing information from the mainframe computer that is the bank's central data storehouse.

Like most large companies, Chemical Bank has set standards for selecting which managers need computers and which combinations of computers and software they need.

E.F. Hutton, the big brokerage house and financial services company, is offering a variety of personal computers and related information services for sale to clients. Several hundred are expected to take advantage of the initial offer, says Vincent Pica, Hutton's first vice president of management information service systems.

Temporary-employe firms are also keenly aware of the rise of the computer; they have had to train their workers to deal with office automation because customers have demanded it. And now they may sell training as well as temporary services.

Officials at Olsten, the nation's third largest temporary-employe company, say it is test marketing training on computers for managers and secretaries at its client firms in the Boston area.

Peter Margarita, an Olsten assistant vice president, predicts that, as companies become more dependent on personal computers, smaller firms will bring in temporary employes to keyboard information into the computers on a regular basis.

Personal computers are transforming the executive workplace despite some executives' reluctance to adapt to them, says IBM's Torgler. He cites a number of reasons for the breakthrough:

- The technology has improved dramatically, in a very short time.
- The cost of the hardware is dropping 10 to 20 percent a year.
- Software packages are constantly gaining in sophistication.
- Data processing departments in medium-size and large companies have become swamped as more and more people have discovered how much can be done through computerization, and this has led to professionals' programing for themselves on personal computers.
- There has been a tremendous rise in computer literacy as business schools have placed greater emphasis on computer use by all of their students.

Managers must avoid pitfalls in this rapidly expanding use of computers. For one thing, when a manager begins to use a computer software package, he should "keep in mind it's the programer talking," says Adam Green, 27, chairman of SoftwareBanc in Arlington, Mass. Knowing something about the programer's background makes understanding a program easier, he says.

That human approach is typical of the training in computers that Green has given 5,000 managers over the past three years through his company, which also sells software, books and videotapes about computers.

Green suggests reading manuals

Learning Through Computers

Computers are an integral part of the course in strategic planning for executives offered by the Western Behavioral Sciences Institute in La Jolla, Calif.

A new class of about a dozen senior managers is formed every six months. Corporations around the world send top people, at a cost of nearly $25,000 each. The course, which includes four eight-day sessions at La Jolla and the purchase of a personal computer, lasts two years altogether. When the students are not in La Jolla, they continue to receive lectures, ask questions and participate in discussions—all through their personal computers.

Most of the students "are either vice presidents or the equivalents from major corporations or chief executive officers of growth companies," says Richard Farson, president of the institute. Some, such as a Los Angeles city councilman, are from government, and representatives of nonprofit groups also have participated.

The program has aroused such enthusiasm that many graduates from the first class, which completed its two years in January, have chosen to continue, Farson says.

Not only do the top executives learn about computers through the course, Farson says, but they also gain insight into their data processing departments' needs, which are little understood by many senior managers.

As board chairman of Westinghouse, Robert Kirby used his own computer for years.

about the software packages that a firm is considering before buying any of them. He also points out that secretaries and others who must enter data on the computer may resist a basic change in their work environment unless they are consulted—not about whether to buy a computer, perhaps, but about the choice of computer and software.

He advises small businesses to resist the impulse to buy a lot of software at once. Instead, he suggests buying one application at a time, starting with the software package most needed—usually a management support program. Green also thinks buying a video game will help overcome intitial reluctance to learn how to operate a computer.

The computer can bring benefits by making changes in managers' attitudes. "Once you have one," says Dominion Bankshares' Massey, "it's easy to see uses for it. It's an excellent productivity tool"—in large part, he says, because "people who were formerly pencil pushers are now excited about their jobs."

Over and over, business executives say that using a personal computer has changed the way they look for solutions to problems. Using a software package for decision support, an executive can find out what effect changes in variables like sales commissions and inventory would have on the bottom line.

But enthusiasm for the computer can be carried too far, experts caution. Green says that "when people get a computer they can become too interested in it," wasting time by working out too many scenarios.

IBM's Torgler warns that computerization will not make a business more efficient if the business fails to give its professionals the support they need. Information in one computer must be compatible with the software requirements of a computer in another part of the company. (Green urges businesses to use IBM-compatible hardware.)

Professionals also need proper training and libraries of software, Torgler says, "and the smart companies of almost any size are giving them that support." He envisions increasing use of personal computers to replace word processors and "dumb terminals"—terminals connected to bigger computers but without independent capabilities.

"You'll see a general blurring of the distinctions," Torgler says, as more managers use personal computers rather than terminals, and as more secretaries use personal computers instead of word processors.

It was in late 1982 that Raymond Marshall, senior vice president for technology operations at General Electric Information Services in Rockville, Md., began using a personal computer—taking advantage of the management support packages, drawing financial information from the company's central data base and writing his own memos.

"It doesn't take much more than junior high school typing capability" to write memos, he says, so he saves his own and his secretary's time. Using his computer's access to the GE electronic mail service, he also sends messages to his staff in Europe and Asia.

IN SOME CASES, enthusiasm for personal computers has percolated all the way to the top of a large business.

"I've had computers for six or seven years," says Robert Kirby, who retired December 1 as board chairman of Westinghouse. In his Pittsburgh office he used a personal computer for electronic mail, he says, in order to save dictation time.

He has not yet hired a secretary at his winter home near Naples, Fla., he says, so "the big use for it right now is as a word processor. It makes it so easy to write letters."

For many executives and their companies, success in the future will be determined by whether, like Kirby, they ride the tidal wave of personal computers—or let themselves be drowned in it. □

What should you look for in personal

Before you go looking for personal computer software, you should know what personal computer software looks like.

(You're not alone if you don't already know that software programs come in a package.)

Programs are "pre-recorded" on cartridges, tapes or diskettes. And, although you can't tell by looking at these cartridges, tapes or diskettes, the programs on them can be very different.

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This analogy can also hold true with software. The better the program quality, the better the result —be it improved productivity or creativity.

IBM Personal Computer Software is both tested and approved by IBM. And these programs are designed to take advantage of an IBM personal computer's many advanced hardware features.

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Any way you look at it, the value of personal computer software is the value of doing your best.

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Many of the same software programs that run on the IBM Personal Computer you use at work will run on other IBM personal computers you use in other places. So you can, for example, continue in your family room what you started in the classroom or boardroom. (Or the other way around.)

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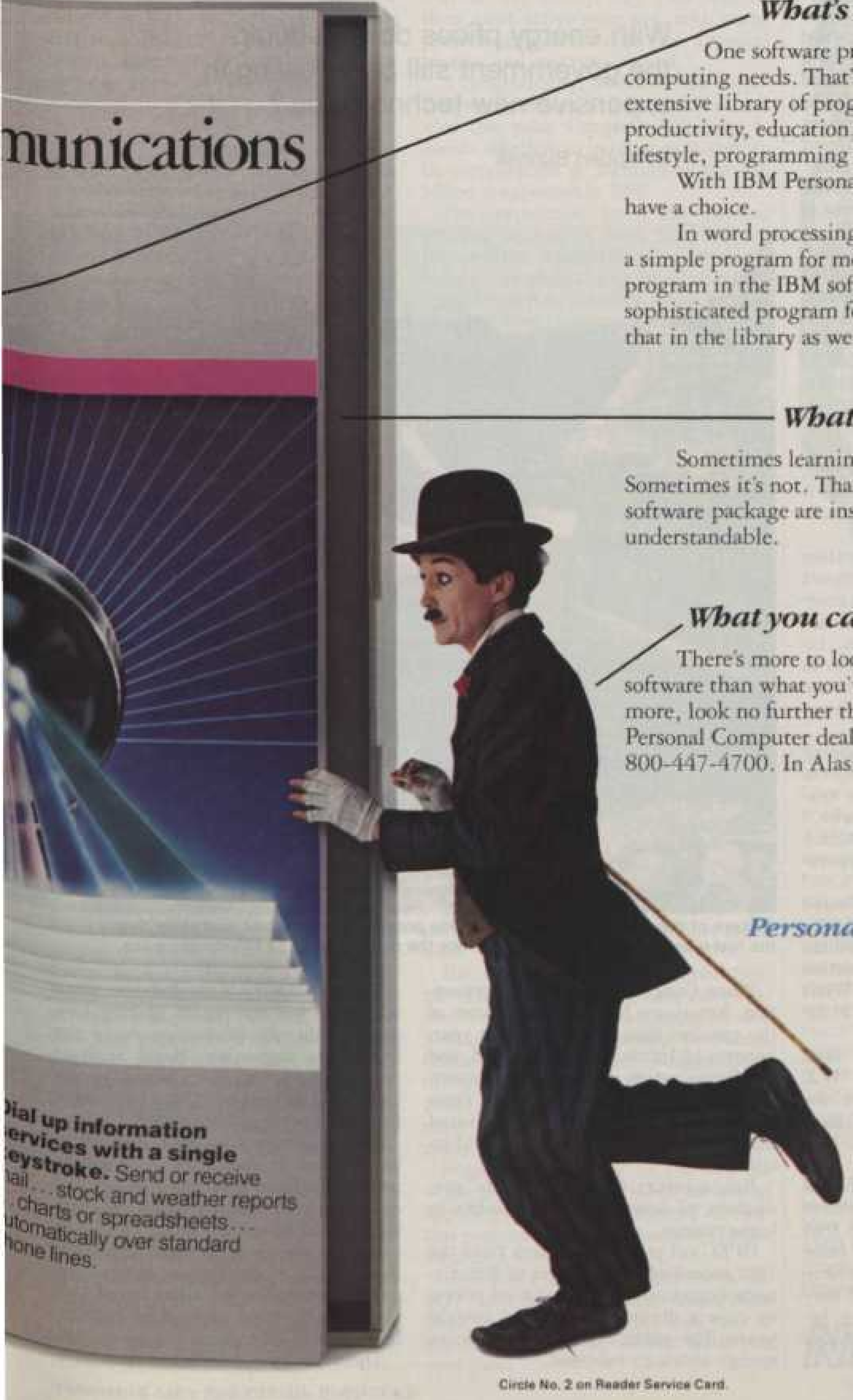

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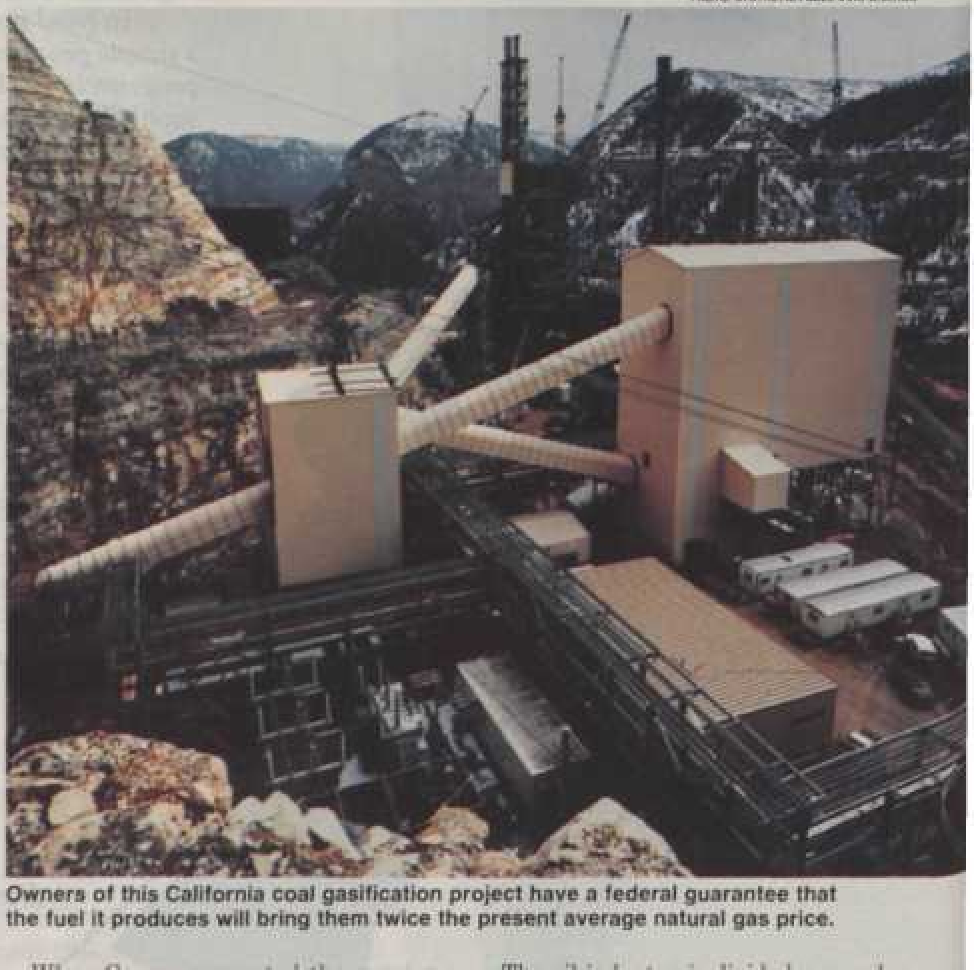
The Fragile Future Of Synthetic Fuels

With energy prices down, should the government still be investing in expensive new technologies?

By Robert Bunnell

PHOTO: SYNTHETIC FUELS CORPORATION



Owners of this California coal gasification project have a federal guarantee that the fuel it produces will bring them twice the present average natural gas price.

LAST JUNE 30, three years to the day after its creation, the U.S. Synthetic Fuels Corporation earmarked the first of the billions of dollars it has been given to nurture the fledgling synthetic fuels industry.

"We have passed a milestone today," said Chairman Edward E. Noble in announcing that the government-owned corporation's directors had approved a $120 million price guarantee for a coal gasification plant in Daggett, Calif. The guarantee assures the plant's owners of a price more than double the current average market price for natural gas.

The corporation thus began to fulfill its mandate, established by Congress in the Energy Security Act of 1980, to help private industry produce the energy equivalent in synthetic fuels of 500,000 barrels of oil a day by 1990 and 2 million by 2000.

Vast resources of coal, oil shale and oil-laden tar sands, which comprise 91 percent of the nation's energy reserves, would be the raw materials for synthetic gas, oil and methanol. Synfuels technology, which uses combinations of heat, pressure and chemical processes, would become increasingly efficient, it was hoped, bringing production costs closer to those for natural fuels.

Although the corporation's creation in 1980 won overwhelming support from a Congress concerned about energy shortages, its first award was not greeted with similar enthusiasm. Instead, critics called for a reduction in the government's commitment to the synthetic fuels program—and some called for ending the corporation.

"The federal government is being called on to finance a variety of projects that hold little chance to produce synthetic fuels at a competitive price," complains Rep. Vin Weber (R-Minn.), sponsor of a bill to abolish the corporation.

The outlook for synfuels has changed drastically in four years, and the change has touched off a major debate in Congress, the Reagan administration and energy-related industries. What happens this year may be crucial in determining synfuels' future.

"Basically, they're a great idea whose time hasn't come," says W.J. Smith, a Washington spokesman for Exxon, one of several firms that have put synfuels projects on indefinite hold in the last three years.

The postponements of some plants and scaling down of plans for others have led to widespread agreement that synfuels production will not come close to the lofty goals set in 1980. Government forecasters will say only that they now expect production to range between the equivalent of 150,000 and 200,000 barrels of oil a day in 1987.

When Congress created the corporation, Americans had fresh memories of the gasoline lines of 1979. In that year, imports of Iranian oil were halted, and the Organization of Petroleum Exporting Countries raised its price from $12.70 to $26 a barrel. The United States was importing almost half of its oil needs.

But, contrary to many experts' predictions, oil demand proved sensitive to higher prices.

OPEC cut prices last March from the 1982 record of $34 a barrel to $29. Experts began predicting stable oil prices, or even a decline, in the next several years. The public's fears of a massive energy shortage subsided.

The oil industry is divided over when oil prices will rise again and by how much, although production costs per barrel are increasing. Some analysts predict oil will cost $35 a barrel (in constant 1982 dollars) by 2000, while others forecast a price as high as $52.

This uncertainty makes it difficult to know when, if ever, synthetics will be profitable. Even shale oil, the synfuel considered closest to commercialization, would have to sell for $40 a barrel—or more—just to meet expenses. Because of huge capital outlays required, estimates for other liquid synthetic fuels range as high as a $90-a-barrel break-even point.

The industry's growth has been ham-

pered by the high interest rates of recent years and by passage in 1982 of the Tax Equity and Fiscal Responsibility Act, which raised taxes and reduced tax incentives important to companies sizing up a high-risk investment.

Under these conditions, synthetics become a high-risk, low-gain venture and thus difficult to justify to stockholders and stock analysts, who are interested above all in a company's performance from quarter to quarter.

IT IS NOT surprising that companies have been quietly tabling plans to spend heavily on new synfuels plants. Many are continuing to spend small sums on research and development and on site selection for future endeavors.

The largest project shelved so far was a $5 billion oil shale plant in Parachute, Colo. Exxon stopped work there in May, 1982. Exxon had been funding 60 percent of the plant, and Los Angeles-based Tosco Corporation, a large oil refiner, 40 percent. The latter exercised its option to sell Exxon its interest in the project for $380 million, making a $100 million profit. Buying out Tosco brought Exxon's expenses for the project to more than $900 million.

Westinghouse Electric Corporation's solution for its unprofitable synthetic fuels division was to put it up for sale. After going months without a buyer, the company signed a tentative agreement with Houston-based Kellogg Rust Corporation, a unit of Signal Companies, Inc., to turn over 80 percent of the division and operations responsibility to Kellogg Rust.

Other companies have scaled down their projects to a fraction of their original size but have retained the ability to expand capacity later.

A few major projects are still under construction, however, among them Union Oil's 10,400-barrel-a-day oil shale plant near the mothballed Exxon project in Colorado. Also alive is the largest project to date, the $2.76 billion Great Plains Coal Gasification Project near Beulah, N.D. Although the plant is 90 percent finished and covered by a federal loan guarantee from the Department of Energy, the five companies that own it fear losses of more than $1.3 billion for the first 10 years of operations and are threatening to halt construction if they do not receive further federal assistance.

Synthetic Fuels Corporation officials note that more than 150 projects have been proposed to the corporation in the last three years. There have been three general solicitations for proposals, and a fourth is planned this year.

It has committed itself to only two projects thus far—the Daggett, Calif., venture, known as the Cool Water Gasification Project, and the first phase of the Union Oil project. But nonbinding letters of intent have been signed for four other plants.

Synthetic Fuels Corporation officials, smarting from criticism that they are moving too slowly, say 1984 will be their most active year yet, with many projects guided through the approval process and contracts signed.

A congressional review of the corporation's activities is tentatively scheduled this year. Congress will have to decide whether to give more money to the corporation in addition to the $15 billion it approved in 1980.

The corporation faces the unusual problem of attacks from both ends of the political spectrum. Conservatives believe synfuels commercialization should be left to industry. Some liberals view the program as a mammoth giveaway to business and a threat to the environment, especially to scarce water resources in the West.

Such strange political bedfellows as Sens. Don Nickles (R-Okla.), a conservative, and Gary Hart (D-Colo.), a liberal, support a bill, introduced by Sen. William Proxmire (D-Wis.), to abolish the corporation.

Rep. Tom Corcoran (R-Ill.) has introduced legislation to cut funding to $3 billion and restrict lending to research and development-oriented projects if proposals to abolish the corporation fail. "The question," he says, "is whether we have the courage to admit we made a well-intentioned mistake."

EVEN SOME OF the program's defenders, such as Rep. Philip R. Sharp (D-Ind.), chairman of the Energy and Commerce Subcommittee on Fossil and Synthetic Fuels, say they wonder if the corporation really needs to spend all of the $15 billion, let alone be given anything more.

The Reagan administration is not expected to support additional appropriations.

But the program has powerful Senate defenders, including Sen. James A. McClure (R-Idaho), chairman of the Senate Energy and Natural Resources Committee, and Senate Budget Committee Chairman Pete V. Domenici (R-N.M.). They argue that unless government acts now, synthetics will not be ready when they are needed.

Supporters may try to put off the whole issue until 1985, when additional spending will not be subjected to election-year scrutiny. Opponents will push for action this year.

"We don't need synthetic fuels today," says Synthetic Fuels Corporation Chairman Noble. "But the lead time is absolutely too great to wait until you need them." □

Bull's-Eye for Employers

You can save thousands of tax dollars by hiring "targeted" workers under this training program.

By Yvonne L. Harris

THE NEXT EMPLOYE you hire could be worth as much as $4,500 in tax credits to you, if you take advantage of a little-known but easy-to-use law.

Enacted in 1978, the Targeted Jobs Tax Credit program is often overlooked in the ongoing national debate over ways to train low-skilled workers for new jobs.

TJTC allows employers federal tax credits for each worker hired from one of nine "targeted" groups. An employer may claim the credit over two years, beginning with the worker's initial day on the job. The credit is half of the worker's first $6,000 in wages the first year (a maximum of $3,000) and one fourth of the first $6,000 earned in the second year (a maximum of $1,500).

The second year's tax credits begin to accrue on the worker's anniversary date of employment. The amount of credit an employer takes cannot exceed the amount of tax owed, but any unused credits can be carried back to reduce taxes owed in the previous three years or carried forward for up to 15 years.

Both large and small firms can benefit from TJTC. Companies with high employe turnover find it is one way to recoup part of their hiring costs. If a new employe works one day and leaves, half the wages paid can be taken as a tax credit.

Stores, fast-food restaurants and hotels are among businesses that have benefited most from the program. Tax credits of more than $100,000 are common: One hotel in the nation's capital received more than $200,000 in tax credits in 1982 alone. Subchapter S corporations, which can pass tax credits through to their partners and shareholders, find the program especially attractive.

If you use the tax credit, you must reduce the amount of the deduction you take for wages paid. But the savings will still be substantial. You can quickly calculate the net savings by multiplying the tax credit by the percentage of tax in your bracket. Then subtract that figure from the tax credit. For example, if you are in the 10 percent bracket and want to claim $3,000, you subtract $300, for a savings of $2,700. If you are in the 50 percent bracket, you subtract $1,500, for a savings of $1,500.

Most of those trained under the program are young; many have never held jobs.

The original intent of TJTC was to promote employment for low-skilled, disadvantaged workers, but Congress broadened the categories of those eligible when it reauthorized the program in 1982.

Workers in some targeted groups must be "economically disadvantaged" if their employers are to qualify for the credit: self-supporting youths 18 to 24, Vietnam veterans, ex-convicts, 16- to 19-year-olds in cooperative education programs and 16- and 17-year-olds in summer jobs. (As of last year, employers could claim a credit of 85 percent on the first $3,000 earned by disadvantaged youths hired for the summer.)

Fortunately, employers do not have to worry about determining who is "economically disadvantaged"; your local job service will decide that for you. Qualifying income levels can vary from county to county. Last year, the upper limit for a family of four was between $9,000 and $11,700, excluding unemployment compensation.

THE REMAINING groups in the program are recipients of state or local general assistance, Aid to Families With Dependent Children or Supplemental Security Income (which benefits needy aged, blind and disabled people) and handicapped persons referred from state rehabilitation or Veterans Administration programs.

TJTC expires next December but is considered likely to be reauthorized. The eligibility list has been—and may well continue to be—modified depend-

PHOTO: JUDITH E. SLOAN

The fast-food chain that hired Kimberly Harris, 21, of Washington gets tax credits for part of her wages.

YVONNE L. HARRIS is a free-lance writer and director of personnel and training for the Sheraton-Poste Inn in Cherry Hill, N.J., which saved $181,000 in 1983 using the Targeted Jobs Tax Credit program.

ing on changes in economic conditions and in other federal programs.

To encourage employer participation, state and federal agencies do most of the program's paper work. You need only two documents to claim the credit—a voucher and a certification. You do not have to prove to the Internal Revenue Service that you have hired the right kind of worker. That determination is made by the state or federal agency issuing the voucher—usually the state job service.

The most effective way to locate prospective TJTC employes is to call your nearest job service office and list the job you want to fill. Describe the particulars—experience and education required, salary, duties and so on. Ask for TJTC referrals who are qualified.

If an applicant brings the voucher to the interview and you decide to hire him or her, complete the voucher and send it to the central TJTC office immediately. A certification authorizing the tax credit you can claim for that worker will be sent to you to be retained for year-end accounting. Certifications for workers must be received or requested in writing by the employer on or before the day the employe starts work.

What if a potential employe walks in off the street or answers an ad? He or she is unlikely to know about the program, let alone the voucher. Refer such applicants to the job service for consideration of TJTC eligibility before they are hired.

Or, if you hire them, submit a written request for TJTC determination that is dated and postmarked by the day the employe starts work. Timing is crucial: If the letter is postmarked even one day after the employe starts, you lose the tax credit. Be careful: Don't drop the letter in the mailbox after work on the employe's first day.

You may be able to reap an even greater financial harvest if your state allows a jobs tax credit on its income tax forms. Pennsylvania, for instance, allows a credit of 30 percent the first year, 15 percent the second and 10 percent the third on the first $6,000 earned in each year. The state program runs concurrently with the federal TJTC. The tax saving that can be realized by combining the two programs is substantial.

The TJTC coordinator at your job service office can tell you if your state has such a program. Another good source of information on the entire TJTC program is IRS publication 906, "Jobs and Research Credits."

Despite TJTC's potential to help both employers and the unemployed, government statistics indicate that it has been greatly underused. Many companies have not heard of it, and others fear that it will involve more paper work than it does.

A recent report by the General Accounting Office, Congress' watchdog agency, found that of workers eligible nationwide, only an estimated 2.5 percent were hired in fiscal 1980, 4.6 percent in fiscal 1981 and 3.7 percent in fiscal 1982.

BEFORE 1982, employers could get credits for hiring any cooperative education student, and such students formed the bulk of TJTC workers. But Congress narrowed eligibility to require that workers be disadvantaged and barred employers from claiming credit for workers from any category after they were hired.

Rough economic times forced more companies to take a look at the program. If profits are squeezed, the tax credit helps increase them. And even when profits are up, the credit helps relieve the tax burden. Vouchers issued in the first three quarters of fiscal 1983 (through June, 1983) were up 32 percent over the number issued in all of fiscal 1982—from 624,687 to 825,483. The proportion of vouchers issued that were certified remained roughly 30 percent in both periods.

A large number of the certifications were for low-paying jobs and were in the South and Midwest. New England and the Mountain states had the fewest certifications.

Hiring for tax credits can change your bottom line, but it is more than just good business in a narrow sense. It reduces unemployment by putting people to work, boosts their spending power and helps stimulate the economy. And that is good for business. □

PHOTO: LEE ANDERSON

Local job services handle most of the paper work for the Targeted Jobs Tax Credit program. But employers must meet strict deadlines to get the credits.

Another Tax Break: OJT

The Targeted Jobs Tax Credit is not the only break you can get for hiring a disadvantaged worker. An employe who qualifies you for TJTC also is likely to qualify you for on-the-job training contracts.

Credits under TJTC can be claimed only on the first $6,000 a worker earns during his or her first year on the job. But an employe making minimum wage—$3.35 an hour—will earn that amount in slightly more than 44 weeks, and a worker earning $5 an hour will reach $6,000 in 30 weeks.

Coupling TJTC with an on-the-job training contract extends the time for which employers can get a break, because the two programs cannot run simultaneously; the OJT contract must be used first.

OJT contracts reimburse employers for half of a new worker's wages for a predetermined number of weeks or months, depending on the difficulty of the job to be learned. The contracts can be written for all wage levels and nearly every occupation.

If you obtain an on-the-job training contract for, say, 60 or 90 days, you will begin accruing credits under TJTC when the first program expires. You will be able to take the full amount of the reimbursement and tax credit if the two together do not exceed 12 months.

OJT contracts should be even more readily available than in the past under the new Job Training Partnership Act, which replaced the expiring Comprehensive Employment and Training Act in October, 1983. The new act will pump fresh money into training and retraining workers, especially those who are disadvantaged or have lost jobs permanently because of plant closings.

The CEO Who Refreshed Coca-Cola

Roberto Goizueta's expansion program has given the soft drink firm a lift.

THE OUTLOOK was grim. From six continents, 50 members of one of the world's best-known corporate families assembled in March, 1981, in Palm Springs, Calif., to review a discouraging situation.

"There was significant concern within the Coca-Cola Company as to whether we were going to be No. 1 very much longer," recalls Senior Vice President Robert Waltemeyer. "We had a principal competitor that was doing a lot of things right."

Two years before, PepsiCo's Pepsi Cola soft drink line had surpassed Coke's in supermarket sales. Overall, the soft drink market was "maturing," to use a term heard on Wall Street. It would grow only 2 percent in 1981.

At least one man who was pondering Coke's dilemma was convinced that something dramatic would have to be done to, as he put it, "get the old ship moving again."

For almost a century Coke had been a beverage company, expanding from soft drinks to citrus juices and wine. But Roberto Goizueta had a broader vision—and fortunately for Coke, he had just been named chairman of the board and chief executive officer.

Cuban-born Goizueta laid before his Coke brethren a bold, imaginative—and, some said, risky—strategy for the 1980s. It projected his conviction that the soft drink market's growth was far below its ceiling in the United States and even more so in the other 155 countries where Coke products are sold. It also argued for expanded entry into the food industry.

And, most dramatically, it called for Coke to invest heavily in what Goizueta believes is one of the most promising segments of the economy: entertainment.

During his nearly three-decade climb up Coke's ladder (beginning in 1954 in Havana), he had learned enough about the big family to know that he could not impose his ideas by executive fiat.

For four long days and nights that March, Goizueta guided a wide-ranging debate over points of his strategy statement. Everyone was given a chance to question his goals. "There were no bad questions," he said, and, for that session, "there were no titles."

What emerged was unanimity—and three years of furious, but directed, activity.

One of the earliest signs of the new direction was a new slogan. "Have a Coke and a Smile" did not have the aura of a fighting slogan. So Goizueta's image makers produced the aggressive "Coke Is It!"

In his strategy statement, the new chairman proclaimed, "It is my desire that we take initiatives as opposed to being only reactive and that we encourage intelligent individual risk taking."

And that they did.

Says Waltemeyer: "In the corporate culture that Roberto fostered we did things that in the earlier culture would have been unthinkable."

The trademark "Coca-Cola" had been sacrosanct. Many other beverages (like Sprite and the diet drink TAB) had been spawned by the company, but it was feared that trading on Coke's name would risk its reputation. Until 1982, the year of diet Coke.

Overcoming arguments based on tradition and fears that diet Coke would cut into TAB sales, the Goizueta team launched the new beverage as its answer to the increasing diet consciousness of an aging American population. The results amazed even Coke officials, who proudly announced that diet Coke little more than a year later was the nation's largest selling drink for calorie counters.

Just as surprisingly, 70 percent of diet Coke drinkers switched not from TAB but from other diet drinks. A new name and a fresh sweet taste, Coke officials believed, were needed to challenge Diet Pepsi. They were right.

Goizueta, acting on his conviction that the soft drink market is bigger than analysts thought,

sought to wring more profit out of Coke's marketing program by replacing with more aggressive business people half of the bottlers around the world to whom the company franchises its soft drinks, sales and distribution. Some of the newcomers got bigger territories, to enable them to take advantage of economies of scale. The idea: increase the pressure on competitors through price action.

COKE IS STILL primarily a soft drink company, with 72 percent of its \$6.2 billion in 1982 sales coming from beverages. In some cases, growth has led to cuts instead of expansion. Goizueta sold the Wine Spectrum to Jos. Seagram & Son when return on equity dropped below Coke's expectations. The company also jettisoned Aqua-Chem, a steam boiler maker, and Tenco, a maker of instant coffees and teas.

These and other cash-generating moves enabled Coke to move into a better position to reach for Goizueta's boldest dream: Columbia Pictures.

In 1982, Coke acquired Columbia for \$695 million. By the end of that year, the movie and television production house had realized its biggest sales ever.

Under Coke's ownership, it released hits like "Gandhi," "Tootsie" and "The Toy." The first two rolled up 21 nominations for Academy Awards.

Columbia Pictures Television, the country's largest producer of network shows, continued to enjoy success with "Fantasy Island," "Hart to Hart" and "T.J. Hooker." Columbia also moved forcefully into the burgeoning pay television, videocassette and videodisc markets and established a growing position in the popular video game market.

Its foods division, already powerful with Minute Maid orange juice and Hi-C fruit beverages, has high hopes for its pulpy and nonacidic orange juices. Recently, Coke bought Ronco Foods, entering the market for pasta and other ethnic foods. So far, the market looks promising.

Bottom lines tend to confirm Coke employes' belief that Goizueta has the Midas touch. Net income from operations for 1980 through 1982 was 12 percent, compared with 9 percent for 1977 through 1979. Year-end stock prices rose 60 percent between 1980 and 1983, contrasted with 20 percent for Standard & Poor's 500. And total assets have jumped 45 percent since 1980.

The man behind the Coke miracle has

PHOTO: COLUMBIA PICTURES

Coca-Cola has moved into entertainment with big hits like the movie "Gandhi."

a courtly, elegant manner that suggests Old World Spain. Born into one of Havana's most prominent families and educated at Yale University, Goizueta joined Coke in Cuba as a chemical engineer before Fidel Castro's revolution imposed communism on the island.

In the years following the revolution, Goizueta worked in Nassau and became second in command of Coke operations in Latin America, a job he left in 1964 for a post in Atlanta.

PHOTO: COCA-COLA COMPANY

GOIZUETA IS THE first foreign-born Coke boss, an advantage, some say, as the company becomes increasingly international. Sixty percent of its income in 1982 came from abroad, and much of its potential lies there.

His managerial style is subtle, almost elusive. He shuns authoritarianism.

"He has this way of improving your performance without your knowing it," says Sam Ayoub, chief financial officer, who postponed his retirement to share in Coke's revival. "When you see him so active and so interested in everything, you have no choice but to be the same. All down the line, his executives follow the leader."

But, adds Ayoub, a friend for years, "Look very carefully into his eyes and you will see the strength that comes out."

Says Waltemeyer, "He lets you run your own shop. He does not hinder the development of good ideas that he did not originate. He has changed the corporate culture.

"Before his arrival there was not an opportunity for people around the world to get together. He has given the company an open, let's-get-the-job-done attitude, and he puts the consumer in the forefront of everything that the Coca-Cola Company does."

Despite earning one of the largest

Chairman Roberto Goizueta (right) and President Donald Keough have fostered a new climate of enthusiasm at Coke.

salaries in corporate America, Goizueta has lived in the same modest northside suburban home since coming to Atlanta two decades ago.

Goizueta, who speaks of approaching his job with a "childlike—though not childish—curiosity," is emphatic when he talks about his fear of being treated too grandly by those who work for him.

"There is a myth in this country about the captain of industry, that he or she can do anything with the organization. But there are so many checks and balances. You cannot stand on top of Mount Olympus and order something, but you have to fight all the time not to be treated like a god" within your organization.

He prefers to surround himself with key players who will support and help carry out his goals. Also, he insists, "You must recognize those around you who make you look good."

FINDING GOOD MANAGERS and trusting them is a key element in his corporate style. Example: Columbia Pictures.

"It would be business folly," Goizueta says, "to try to interject yourself or suppress or control or edit the creative talent. We want to attract the best producers and directors, and we feel that if we leave them to their own devices they will produce good movies and movies of good taste."

It would also be business folly, he asserts, to try to dictate taste to customers. You must, he says—using a Spanish expression—"keep the scientist's candor" in understanding public opinion through market research. "It is a big mistake when you don't listen to the consumer," he adds.

Coke scientists concluded that caffeine has no ill effects on health, but, faced with the rising public belief that it does, the company produced caffeine-free soft drinks. Goizueta himself drinks Coca-Cola, which, of course, contains caffeine. "It gives you a lift," he says.

Coke is on a roll now. Goizueta, managers say, has converted a conservative company into a glittering winner. How long will it last?

It is a matter of "brinkmanship," says the 52-year-old chief executive officer, who recently joined the board of the U.S. Chamber of Commerce and is becoming one of the country's most prominent business leaders.

"You must not get too far ahead of the public and certainly not too far behind," he says, adding with a smile: "I said the public would never accept plastic bottles." □

—Henry Eason

To order reprints of this article, see page 73.

Next Month in **Nation's Business**

The Very Best Ads: Your Choices

Last month we presented nominations from top advertising experts and asked you to pick the best print and broadcasting ads aimed at business in 1983. Read the results—plus how the winners were created.

How Companies Curb Health Costs

Business is becoming more determined to slow the medical cost spiral, and it is turning increasingly to a classic remedy—competition. This report discusses new efforts to solve one of employers' gravest problems.

Leaders in a New Business Era

A fresh generation of deans has taken over at some of our better business schools. Six deans candidly discuss the challenges of preparing future managers for an era of technological change and intense global competition.

The Growth of Cottage Industry

Cottage industry: The term conjures up an image of people working at home on hand looms. But home workers today are likely to be busy at computers. And tomorrow there will be many, many more of them. Find out why.

Making Computers And People Compatible

By Jim McNitt

IF YOU INTRODUCE a system of personal computers into your business intelligently and compassionately, your firm can attain new levels of prosperity. Productivity gains of 15 to 50 percent within the first year are not uncommon in clerical procedures. Productivity in certain tasks, such as bookkeeping, can increase 100 percent—even as much as 400 percent in some cases. And company morale can soar, particularly if computerization is linked to increased responsibilities and perhaps even a share of profits.

On the other hand, the business owner who is unaware of or insensitive to the nuances of computerization and its effects on people may find the personal computer creating a counterproductive backlash of resentments, jealousies and resistance. Unless you consider the volatile dynamics of office politics and other human factors, computerization can have serious consequences.

For one thing, technology can result in the "de-skilling" of jobs by reducing a worker's ability to make decisions. As one collection manager describes it, "The computer gives us a tighter lock on the collector, and we can hire less skilled people. But there's a real loss to the job of skills and know-how. You are being told what to do by the machine."

Another danger is that technology alters an individual's relation to his work, often demanding manipulation of data without any real worker understanding of what the data represent. When work becomes abstract, a manager may end up with a labor force that is both incompetent and disgruntled—incompetent because the computer has co-opted the employe's judgment and basic understanding of his or her job; disgruntled because without any sense of spirit or purpose, work becomes an exercise without meaning.

Resentment also brews when the computer reduces social interaction on the job or increases the sense that one's work is being watched and measured. "When the computer transforms a job that once required extensive interaction with fellow workers into solitary days at a keyboard, even the most personable employe may grow sullen and resentful," says Shoshana Zuboff, assistant professor of organizational behavior at Harvard University's Graduate School of Business Administration.

"Networked" computers that can monitor other work stations have great appeal for business owners. But too often, management employs such monitoring systems, says Zuboff, "without sufficiently considering the potential human and organization consequences." With remote supervision, she explains, many employes limit their own risk-taking behavior—spotting an error in the data and correcting it, for example, or developing a more effective approach to the work.

Unless you have laid careful plans in advance, your employes see themselves facing one of three choices when the computer arrives: They can acquiesce, resist or quit. Most resist.

Duffy Goodrich of Cleworth Conditioning, Inc., in Roselle, N.J., computerized his firm's administrative functions over a three-year period with a pair of Radio Shack TRS-80s. "The computing system," he says, "has let us do five times the business we did before. Our profits have grown steadily, even during the economic slowdown."

But in the beginning, Goodrich found "massive resistance to machines in the office." As long as employes were writing out cost estimates, orders and invoices by hand, there was tangible evidence of the importance of their jobs. But the transition to computerized recordkeeping frightened them. Most feared the computer system would put them out of work, Goodrich recalls. Instead, it created more jobs at Cleworth by allowing business expansion.

THERE ARE TWO basic approaches to computerizing a firm. "The first," notes computer scientist Ron Reisman, "is the bottoms-up approach." It starts, typically, when one department, such as accounting or payroll, gets a computer. Eventually, that department becomes known as the "computer department" as other employes try to share in the computer's efficiency.

"The top brass hears about this and may be persuaded to buy personal computers for the whole company," says Reisman. "But in the meantime, a com-

puter fiefdom has been set up within the business, and resentment has cropped up among employes because of the disproportionate efficiency displayed by the computerized department."

The alternative? Reisman calls it the "top-down" method. "This amounts to a reasoned decision by management that the business should computerize. A manager is assigned to implement the computerization. Ideally, this person is not the most knowledgeable about computers, since—if he is—he will probably set up a fiefdom of his own. But if computerization is accomplished according to a rational plan, everybody will have computers and the power structures will stay relatively intact."

It is entirely possible to computerize a business through fear and fiat. "In this company," says the president of one firm, "employes go on-line with the computer or off-line with their jobs."

This approach assumes that most employes are interchangeable cogs and that productivity is wholly independent of superior-subordinate relationships and worker morale. But as the Japanese have demonstrated, employe motivation is not irrelevant—it is essential. And in an information economy, people frequently are more important than machines.

UNFORTUNATELY, automating a firm in the United States all too often amounts to little more than an unvarnished campaign of employe intimidation. The war of nerves begins with the very first step, the base-line analysis, by which each manager is asked to itemize his department's tasks—who does what, how many hours it takes, and how much it costs. From this information, a CEO can decide how many machines to buy and where to put them and can request competitive bids.

But the base-line analysis has an adverse impact on staff morale—no one likes to be forced to justify his job. The approach assures resistance even before the actual decision to computerize has been made.

The base-line audit and similar analytic approaches are typical and, perhaps, unavoidable in businesses where central mini- or mainframe computer acquisitions are made. But for the small firm whose basic computer needs can be met with a microcomputer and a few off-the-shelf software packages, the cost of a thoroughgoing analysis may actually exceed the price of the computer. And the hidden cost, in human terms, may be incalculable. One should not throw an entire firm into turmoil to find out whether a $5,000 microcomputer can save time and increase productivity.

As the owner or CEO of a business, how do you computerize in a sensible, compassionate and profitable fashion?

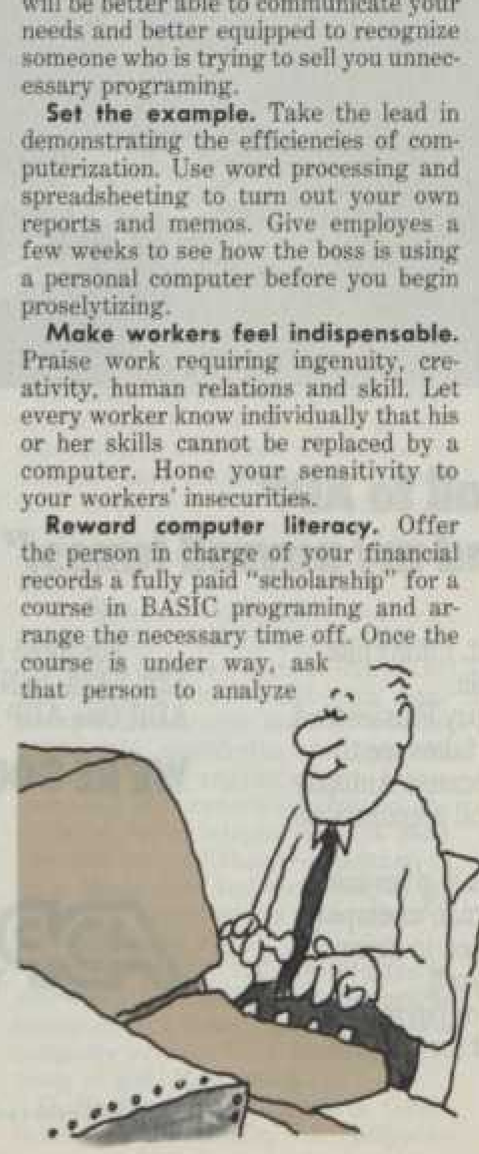
This is one battle only quiet diplomacy can win.

Get literate. Despite the pressure of running a multimillion-dollar company, Carl Griffin mastered the personal computer while serving as chief executive officer of Touche Ross & Co., one of the "big eight" accounting firms. Take your computer home and work clandestinely until you are confident of your abilities. This way, you will be computer literate when the time comes to install equipment and software in your company. If custom programs are necessary, you will be better able to communicate your needs and better equipped to recognize someone who is trying to sell you unnecessary programing.

Set the example. Take the lead in demonstrating the efficiencies of computerization. Use word processing and spreadsheeting to turn out your own reports and memos. Give employes a few weeks to see how the boss is using a personal computer before you begin proselytizing.

Make workers feel indispensable. Praise work requiring ingenuity, creativity, human relations and skill. Let every worker know individually that his or her skills cannot be replaced by a computer. Hone your sensitivity to your workers' insecurities.

Reward computer literacy. Offer the person in charge of your financial records a fully paid "scholarship" for a course in BASIC programing and arrange the necessary time off. Once the course is under way, ask that person to analyze



accounting packages to see whether, for example, computerizing the accounts receivable might not be worthwhile. Then move diplomatically but swiftly to computerize your bookkeeping system.

Set up a demonstration center. If computerization involves more than one or two employes, hire a teacher to give regularly scheduled classes in computer literacy *on company time*. Encourage personal computing by helping employes finance home computers through low-interest loans, preferably for the same models used at work.

Offer incentives. Reward workers for increased productivity. A number of firms have found that linking computerization to a *gainsharing* plan boosts significantly both profits and computer acceptance. Gainsharing sets companywide goals, such as reducing the payroll-to-sales ratio. Targets are set by an employe-management committee, and funds for gainshare bonuses are drawn from a percentage-of-increased-profits pool. All employes, not just star performers, receive bonuses when targets are met.

Another potent incentive, particularly for management personnel, is recognition. One study of American managers found 49 percent cited recognition for their work as the most important reward. Use all public forums at your disposal—including memos, local media, luncheons, association meetings and trade shows—to recognize computer-related achievements of managers and workers.

Computerize humanely. Keep the drawbacks of computerization in mind as well as the benefits. To counteract the "de-skilling" of workers, try to structure assignments to include both computer activities, such as word processing, and tasks requiring human relations, judgment and creativity.

The personal computer offers opportunities for career advancement and business growth that are unlikely to be repeated in our lifetime. But successful automation is far from automatic. The real success or failure of computer management has little to do with the hardware, and everything to do with attitudes and motives.

"If you want productivity and the financial reward that goes with it," Thomas J. Peters and Robert H. Waterman, Jr., advise in *In Search of Excellence*, "you must treat your workers as your most important asset."

Keeping the personal computer *personal* is the key. In the end, success will demand more art than science, more tact than muscle. □

To order reprints of this article, see page 73.

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The Unstated Message Of The 1984 Olympics

The Los Angeles games will show U.S. private enterprise at work.

THE LOS ANGELES Olympics are proving to be an effective worldwide advertisement for capitalism. But Peter Ueberroth, president of the Los Angeles Olympics Organizing Committee, politely rejects making any propaganda capital out of this accomplishment. Ueberroth frowns on mixing politics with sports—as occurred in 1980, when 62 nations refused to participate in the Moscow games in protest of the Soviet invasion of Afghanistan.

"We don't want to give out the message in a political sense," says Ueberroth. "We are not interested in being labeled the private enterprise games."

The Olympics committee initially sought funding from the city government, but the people of Los Angeles voted overwhelmingly in a 1978 referendum to prohibit spending tax dollars on the games. Corporate America then rushed into the breach.

Twenty-nine companies, paying a minimum of $4 million each for the privilege of using the Olympics theme in their advertising, became official sponsors. The committee raised the additional amount needed primarily from the sale of television broadcasting rights (a record $225 million from the American Broadcasting Company) and through ticket and souvenir sales.

The total budget is expected to be about $500 million—small compared with Soviet expenditures in 1980 of $9 billion. The Los Angeles group performed this fiscal sleight of hand by winning the donation of Southern California playing fields and dormitory space, thus saving the cost of constructing an Olympics village.

This year's games "promise to provide a compelling look at America's freedom and lifestyle," says Dennis Long, president of Anheuser-Busch, which has contributed more than $11 million to the Olympics. Ueberroth, who has a business background himself—he formerly headed a large Los Angeles travel agency—says Anheuser-Busch is one of America's best examples of a corporate sports sponsor.

The beer company is, of course, winning promotional benefits for its efforts. But it is doing so with a light touch. Anheuser-Busch did not exercise its right to the imprimatur "official beer of the Olympics," because it did not want to convey the impression that beer consumption in any way contributes to athletic prowess. Instead, the company's ads identify it as a "proud sponsor."

Tom Petranoff (center), one of 40 Olympic athletes hired by U.S. firms, confers with fellow Anheuser-Busch employes.

Ueberroth's committee, in a conscious effort to downplay commercialism, decided to limit the number of corporate sponsors. Ueberroth says sponsorship of the 1980 Winter Olympics at Lake Placid by 381 companies gave too much of a commercial flavor to the events.

Most corporate sponsors this time are adding in-kind services to their cash support.

International Business Machines, for example, is donating use of its new Audio Distribution System. This will allow the more than 10,000 athletes and 2,000 coaches to coordinate daily schedules through recorded messages.

COMPANIES have hired 40 of the 592 participating American athletes. The athletes hold down regular jobs, for which they are paid full salaries and given customary company benefits. But they are permitted to train and participate in preparatory events during much of the workweek.

Tom Petranoff, the world record-holding javelin thrower, is on the employe relations staff at Anheuser-Busch's Van Nuys, Calif., brewery.

For him, says Petranoff, his job's "bottom line is paying rent, paying bills, being able to travel to international competitions." He hopes more companies will help meet athletes' economic needs.

The Los Angeles games, to be held July 28 through August 12, are expected to have a $3.3 billion economic impact on southern California, generating many millions of dollars in tax revenues.

Says Los Angeles Mayor Tom Bradley: "Private sector contributions have made the Olympics possible. We are greatly in debt to the corporate citizens of this country who have stepped forward to finance the games." □

—Henry Eason

PHOTO: DEPARTMENT OF DEFENSE

An F15-fired missile is now being tested as a defense against space-based enemy weaponry.

Build A Missile Shield In Space?

It could be an escape from or invitation to nuclear disaster. It definitely would have major economic impact.

By Henry Eason

AMERICAN DEFENSE scientists, prodded by President Reagan's "strategic defense initiative," are drawing up blueprints for what may be the most dramatic weapons system in military history: a space-based shield that could destroy Soviet-launched missiles.

The 1972 Antiballistic Missile Treaty banned missile-killing weapons, but both superpowers have continued to explore their potential. Washington fears that Moscow has outstripped U.S. efforts, and there is strong sentiment for at least developing technology that could be used if the Russians ever deployed their own ballistic missile defense system.

Reagan's fiscal 1985 defense budget asks Congress to provide $2 billion for research into the best BMD weapon design, and Congress is likely to approve.

To some, a BMD shield is a way to escape a frightening reality: East and West are like scorpions in a bottle, with a death struggle averted only because their bristling offensive weapons would make mutual destruction inevitable.

To others, like the Union of Concerned Scientists, pursuing BMD technology could lead to disaster. "Insurmountable technological and political obstacles will prevent us from developing an effective shield against nuclear weapons," the public interest group predicts. "Most importantly, even the effort to build and deploy these defensive technologies could spur a dangerous new phase of the arms race."

There is widespread agreement that the BMD debate is the most momentous debate on nuclear arms since the aftermath of Hiroshima. Says BMD proponent Ken Kramer (R-Colo.), a member of the House Armed Services Committee:

"We are talking about nothing less than a total restructuring of our national defense policy, away from mutually assured destruction toward mutually assured survival."

A total restructuring of American defense policy would not easily be accomplished. The "iron triangle"—the Pentagon, defense contractors and Congress' armed services committees—does not respond eagerly to proposals for sweeping change. Altering overall strategy means that hundreds of defense programs must change, too.

The impact on the defense industry would be enormous. Pentagon estimates of the cost of deploying a reliable BMD shield reach as high as $1 trillion over two decades, an amount greater than the entire annual federal budget.

Many financial analysts believe BMD could be bought for much less. But with no clear blueprint for the system yet developed, it is prudent to say that the expense would be "staggering," as Richard DeLauer, undersecretary of Defense for research and engineering, told the House Armed Services Committee in December.

High Frontier, a nonprofit organization dedicated to BMD development, argues—and most BMD advocates agree—that antiballistic missile systems would be most effective if they were deployed in space. (Earlier ABMs were ground-launched missiles, but nearly all were outlawed under the ABM Treaty.)

Theorists at High Frontier envision abundant economic benefits accruing from space-based missile-killing battle stations. They estimate that 200,000 jobs would be created just during the earliest years of development.

Still, says High Frontier Director Daniel Graham, former head of the Defense Intelligence Agency, defense contractors have not rushed to openly embrace BMD. Some, however, are toiling secretly on the technology.

So far, says Graham, a retired Army lieutenant general, major contractors have given little more than lip service to High Frontier's vision of the future. One prominent aerospace company worked closely for a few months with Graham's think tank, then broke off discussions when "it caused a problem for them at the Pentagon," Graham says. He adds:

"The kindest thing you can say about the Pentagon attitude [toward BMD] is that it is still looking at strategic defense. To the Pentagon, no defense is good unless it is perfect."

Graham and his High Frontier associates are pushing for what the group calls "a bold and rapid entry into space." Even President Reagan, who embraced BMD in a March, 1983, address known as his "Star Wars" speech, is not moving fast enough for advocates of a crash program in space.

Sen. Malcolm Wallop (R-Wyo.), along with Graham and others, believes the President's efforts to deploy BMD are being frustrated by the Pentagon and State De-

America can have a ballistic missile defense system in five years if it makes a crash effort, says Daniel Graham.

partment bureaucracies. "The President is being badly served," says Wallop. A Senate Intelligence Committee member, he says BMD research and development "probably ought to be removed from the Department of Defense and done as a national project" that would be insulated from bureaucratic politics, as well as from congressional budget skirmishes.

Wallop has threatened to lead a fight against the MX offensive missile if the President cannot break the BMD logjam within the defense establishment.

GRAHAM, WALLOP and others believe an effective BMD is achievable within five years at a cost of about $15 billion. They say that Pentagon officials' decision to continue research and development without a concrete plan for deployment is a way of studying the issue to death. "They are calling for R&D forever," says Wallop.

Defense firms are quiet on the subject. One insider explains, "It's a lot like the Stealth [bomber] issue. Them that's working on it can't brag about it. Them that ain't can't talk about it."

Some prominent figures in American industry have decided that space-based defensive systems are inevitable.

Says Norman Augustine, president of Martin Marietta Aerospace: "An energetic but carefully focused ballistic missile defense program appears to be clearly worthy of pursuit."

Since the ABM Treaty was signed, says John Foster, TRW's vice president for science and technology, "our BMD program has suffered from frequent redirection and budget reductions, while the Soviet Union has pursued an aggressive BMD program on a broad front."

Treaty provisions permit research and development activities but ban deployment except for systems to defend Washington, Moscow and one other site for each nation. Only the Soviet Union has fielded its maximum allowable hardware.

Underlying the signing of the ABM Treaty was fear on both sides that the arms race would become unbridled if each sought a defensive method of preventing massive retaliation. That issue still haunts the BMD debate. The first country to attain BMD will win clear nuclear superiority, with consequent ability to blackmail its adversary.

Despite some BMD advocates' assurances that an effective program can be developed quickly, DeLauer, speaking for the Pentagon, told a House committee: "The technology does not now exist to provide a basis for a decision to produce and deploy actual weapon systems that are capable of satisfying the President's goal."

On the advice of the Defense Department and a blue ribbon panel headed by former National Aeronautics and Space Administration Director James Fletcher, President Reagan in January ordered accelerated research into the best BMD method. There are indications the effort will cost at least $27 billion over the next five years.

Estimates vary widely on the time and funds needed to deploy a BMD. Few agree on the type of BMD needed.

Ashton Carter, a co-editor of the book *Ballistic Missile Defense*, says that "any BMD deployment would take nearly a decade to complete." He cautions: "Its capability must be measured against the future and potential offensive arsenal" of the Soviet Union. It might be much cheaper for the Soviets to adjust their offensive technology to new American defensive systems than for the United States to field BMD.

Any BMD technology will be complex, fragile, vulnerable and susceptible to Soviet countermeasures, says Robert Bowman, president of the Institute for Space and Security Studies and a former director of Air Force "Star Wars" programs.

The technical challenge of BMD is daunting, say most scientists, particularly if the decision is made to develop "directed energy" weapons (lasers, for example) instead of using off-the-shelf weapons like "kinetic energy projectiles" (solid objects fired at intense velocities).

LASER TECHNOLOGY is, to be sure, already in use in conventional systems. Lasers can, for example, destroy antitank missiles and have been used with mixed success in jet aircraft combat. But, experts contend, significant improvements are needed before lasers can destroy targets moving at the speed of sound more than a thousand miles away.

Furthermore, as Maj. Gen. Bernard Randolph, director of the Air Force's space systems, recently testified on Capitol Hill, a machine generating the 10 megawatts of power required to fire lasers from space to the Soviet Union would weigh 150,000 pounds. The United States does not have the space shuttle capacity to lift into place the 50 to 100 battle stations some say would be needed.

In the meantime, both superpowers are stepping up their research and development efforts.

Carter's book, an anthology of articles by BMD authorities, concludes: "It is clear that if either side were to abrogate the treaty today, the Soviets could put a working BMD system into operation faster than the U.S. could."

Hampered by bureaucratic and political caution, confronted with Soviet advances and challenged by technological obstacles, the country is groping toward a strategic system that stresses defense over offense—toward a dream it hopes will not become a nightmare. □

The Soviet Union's Pushenko radar complex is an indication that Moscow is moving ahead in the race to develop a BMD system. American officials assert that this installation violates the 1972 ABM Treaty.

PHOTO: DEPARTMENT OF DEFENSE

Setting Up Shop On Computer Screens

Electronic selling's brightest future may not be in the home but in stores and malls.

By Bob Gatty

BACK IN 1966, Stanley Marcus predicted that one day telephones would be hooked up to video screens on which products could be displayed, offering a powerful new tool for sales. "I thought selling would go on over the phone just like over the counter," he says.

The retired chairman of Neiman-Marcus, the upscale Dallas-based retail firm—he is now an independent marketing and customer service consultant—laughs when he recalls that prediction.

"I was a little off," Marcus says.

But he had the right idea.

Burgeoning computer technology now allows shoppers to order merchandise by using home computers or special electronic devices, and without ever coming into a store.

Some companies, like Comp-U-Card International, Inc., of Stamford, Conn., and Viewtron, a Florida-based service of Viewdata Corporation of America, Inc., are betting that consumers will increasingly like the idea of flipping on their terminals, asking for information about a product, receiving a breakdown on availability, prices and specifications, and then ordering the merchandise—all without leaving home.

Launched last October in the Miami, Fort Lauderdale and Palm Beach areas, Viewtron offers consumers a choice of 150 "business participants," according to promotion and public relations coordinator Daniel L. Smigrod.

"This is the wave of the future for shopping and banking and getting news and information," he says.

Subscribers connect a special videotex remote control keypad and control unit to their TV sets. Built by AT&T, the equipment sells for about $900. Payment of a monthly fee of about $30 permits subscribers to receive the shopping service as well as local news, weather and sports. They can post messages for other subscribers to see, bank at home, check the stock market and even receive information on household fix-it problems.

The terminal does not function as a personal computer, which transmits only words and numbers. Rather, it accepts the color graphics carried by Viewtron, allowing the consumer to receive a vivid color representation of the products.

Through Viewtron, for example, consumers may order from the entire J.C. Penney Company catalog and charge purchases to their credit cards, says Smigrod.

They can order flowers from local florists after viewing computerized pictures of displays. They can purchase furniture, arrange vacations, and buy tickets for sporting events—or books from local bookstores.

In fact, Smigrod notes, one clothing retailer is using Viewtron to enter the Florida market without opening stores or making any investment other than the fees charged by the service, which can run from about $5,000 to $50,000 per year.

Viewdata Corporation plans to expand Viewtron to 18 other markets served by Knight-Ridder Newspapers, which owns Viewdata. As the *Miami Herald* does in Florida, the newspapers will provide the news service for Viewtron subscribers.

Comp-U-Card International's Comp-U-Store service allows consumers to choose from among more than 60,000 offerings through their personal computers, says Marketing Director Jeffrey Hall.

"If a person wants a television set but doesn't know exactly which one, he can get a menu on the screen that tells what's available, and then he can order what he wants," Hall explains.

Since Comp-U-Store uses personal computers already owned by the consumer, there is no need to buy a special device. But the information received is only in text form, with no graphics.

"We are the pioneers in the whole area of interactive shopping, and we're national in scope," says Hall, noting that customers can use the service by calling one of more than 1,000 local phone numbers. Customers pay an annual fee of $25 plus connection charges of 30 cents per minute in prime time—9 to 5, Monday through Friday—and 8⅓ cents per minute all other times.

LIKE Viewtron, Comp-U-Store offers manufacturers, distributors and retailers an opportunity to gain added exposure for their merchandise.

"We carry no merchandise ourselves," says Hall. "We have a network of vendors across the country. We are looking for suppliers who can provide products at low prices." Hall explains that Comp-U-Store sells wares at discounts of up to 40 percent off the manufacturer's suggested retail price. Agreements with vendors are worked out individually.

Comp-U-Store "captures" the order from the consumer, processes it and then transmits the order—often via computer—to the vendor.

Electronic shopping may become a

PHOTO: LORRAINE ROHNE

Customers at a San Francisco store can browse at a TeleTouch video kiosk.

strong competitor in the retail market some day, but Thomas R. Rauh, national services director for retail consulting at Touche Ross & Co., in San Francisco, doubts that will happen before the mid-1990s. Rauh argues that for electronic shopping to succeed, the consumer must be given "real depth" in choices.

"He has to know that when he turns on the monitor and looks at tire information, he is seeing at least 75 percent of what's available in his area," Rauh says. "If he sees only two tire companies, it doesn't do him any good."

Moreover, Rauh believes that while relatively few consumers are hooked into such systems, manufacturers and distributors will "sit on the sidelines and ask why they should pay good money to reach only 10,000 households."

To establish a videotex shopping service requires an investment of $25 million to $30 million, he adds, including a data center, technical control, software, equipment and marketing, and "I just don't know that the economics are there."

J.C. Penney considered such a service, Rauh notes, but so far has chosen to put its catalog into the Knight-Ridder system instead. Sears Roebuck has participated as a provider of products in other systems. "At some point in time we might be in a position to have a central data base with a potential reach of millions of people," says a Sears spokesman. But, he adds, such a development is certainly not imminent.

A major Canadian retailer, Hudson's Bay Company, of Toronto, also has tested the potential of at-home shopping. A source there says, "We think it is still valid for research, but the home market appears to be some time away."

The problem? "Consumer acceptance appears to be spotty, and technology is not at the level we believe is necessary to deliver." Moreover, the spokesman says, the cost is high.

Before widespread consumer participation in at-home shopping is achieved, consumers must be able to use their personal computers to receive not just text and numbers, but color graphics and perhaps photographs, according to Bob Smith, president of the Videotex Industry Association in Arlington, Va. That development is only a few years away, he says.

Whether to join or buck the electronic shopping trend is a tough decision for retailers, notes Touche Ross' Rauh. Since enormous amounts of money are invested in stores and shopping centers, it seems foolhardy to some retailers to deliberately encourage consumers not to come to the store. Moreover, substantial sales to impulse buyers might be lost, Rauh notes.

TREND-SETTING retailers are thus looking hardest at in-store "public access" terminals as the most effective way to cash in on the new technology.

Comp-U-Store has completed what executives call a successful test of placing kiosks in the bed and bath sections of seven department stores in Boston, Washington and Dallas. Using a state-of-the-art videodisc system, the kiosks provide professional-quality commercials about J.P. Stevens textiles.

The customer can use a digital keypad to obtain information about a specific product, "browse" through other offerings and then order what he wants.

"It becomes easy from the retailer's point of view," says Rauh. "He doesn't have to build a distribution center or change inventory levels. The manufacturer pays the retailer to put the machine in his store. The retailer doesn't have to do anything."

But retailers, too, will be able to use the system by displaying their own ads and products, Rauh notes. In fact, he says, for department store chains kiosks offer the chance to present complete merchandise selections even in their stores in small communities.

Specialty retailers can also take advantage of the system, Rauh says, by placing a terminal in a full-service retailer's store.

Sears is using in-store terminals to provide information about products but not to allow customers to order merchandise. Similar terminals are popping up in shopping centers, directing consumers to stores that carry specific merchandise and informing them of sales.

The development of the videodisc is offering other opportunities to retailers. Sears has tested placing catalogs on videodiscs and sending them to 750 homes. Customers can flip through the catalogs on their TV screens, then call to make purchases.

Adams-Russell, Inc., of Waltham, Mass., has developed a system called Cableshop, which provides six-minute "infomercials" on cable television systems. The in-depth taped presentations about specific products invite consumers to phone in their purchases on an 800 number. The system is now being expanded to Los Angeles, Chicago, Boston, Erie, Pa., Tucson, Ariz., Detroit, and the state of New Jersey.

A published guide and messages on the screen tell which infomercials are available. Shoppers also are invited to call in and request information on products. Trevor Lambert, an Adams-Russell vice president, says the response has been tremendous: "People are watching by the thousands."

Such rapidly developing technologies are opening up new vistas for those seeking markets for their products.

Stanley Marcus, 78, has lived through much change in his business. He knows what it is like to face the prospect of a revolution in retailing.

"Rather than viewing electronic selling as a threat, I view it as a challenge," he says. "I just wish I could live long enough to see it all unfold." □

PHOTOS: VIEWTRON

Subscribers to the Viewtron service in southern Florida can order products and services from 150 firms. They can also get the news, post messages and check the stock market.

Learning To Work Overseas

Recognizing that the American way is not the only way is a big step toward success.

By Susan Nelson

PHOTO: COPELAND GRIGGS PRODUCTIONS

In Japan, a handshake and a bow are both acceptable forms of greeting.

PHOTO: BOB DAVIS—WOODFIN CAMP

For many Americans, sudden immersion in a foreign culture is a shock. Until they adjust, it is difficult for them to do their jobs.

CAN YOU sip coffee for hours, bow with the proper degree of respect or smoothly speak a little in a foreign language?

If so, you may have a step up on doing business abroad. Getting the overseas contract or managing the overseas office depends on knowing the culture as well as on having a good product.

For Pedro "Pete" Garcia, president of Ex-imp International, Inc., of Miami, knowing the cultural differences is "the key to doing business." Garcia's firm exports $3 million worth of building materials annually to the Caribbean, the Bahamas, and Central and South America.

"You must accommodate yourself to your customers," he says. "You have to think the way they think to do business." Garcia, who came to this country from Cuba 22 years ago as a teen-ager, has been awarded the President's "E" Award for increasing export sales.

People in the countries Garcia trades with, he says, "are procrastinators. Schedules don't exist. Then they are always in a rush." But, he adds, "I'm not in the business to make them change their way of doing things."

A number of major companies have started including cross-cultural discussions in their briefing sessions for employes going abroad. The discussions help business people recognize their own cultural values, the value systems of other countries, and how to work within a foreign business and social culture.

At Getty Oil Company, employes have the opportunity to take an intensive three-day cross-cultural orientation seminar given by specialists in relocation. When the first people to take such a course reached Kuwait, "they hit the ground running," says R.J. Earley, Getty's international human resources manager.

"Our manager in Kuwait said, 'These people are miles ahead of anyone in adjusting to the culture.' There is a crying need for more of this cultural orientation."

Cultural insensitivity can result in missed opportunities, lost contracts and inability to get a job done. Cultural orientation can be valuable both to the business person on a short trip and to the employe living abroad. In a foreign country every aspect of living can be different—language, weather, work habits and simply calling a taxi. At first the differences are intriguing, then they seem impossible to deal with.

"Anybody who says he didn't have culture shock when he was overseas is deluding himself," says Frank Williams, manager of personnel administration and operations for Hewlett-Packard. Williams worked for the company in Singapore.

Going through culture shock can be "a mind-blowing experience," says L. Robert Kohls, executive director of the Washington International Center of Meridian House International. Kohls, who has given orientation for years to government and business people, feels that some cultural orientation can "keep you from jumping off the cliff."

At Hewlett-Packard, Williams shows "Going International," a film series on living and working abroad used by a number of companies, and "this prompts discussion." At Westinghouse International, employes headed for the Middle East take an outside intensive cultural program, and the company hopes to develop an in-house program. The 3M Company now includes in its orientation tips on how to deal with stress abroad and reassurances that everyone experiences culture shock.

"Every day in Singapore we found things that were different," Williams recalls. "My advice is, don't go abroad with preconceived notions. Whatever they are, they'll be wrong. Go with a sense of humor, be open, be receptive and roll with the punches."

ONE BUSINESSMAN who spent two years in Brussels wishes that his company had at least warned him about the Belgian weather. "We had rain every day," he says. "In the four years we've been back, I haven't bought my wife as many flowers as I did in the two years in Belgium to cheer her up."

Several firms as well as numerous consultants offer cultural training programs for businesses. The sessions can range from an hour's consultation for a chief executive on how to entertain his hosts while on a short overseas trip to an intensive three-day briefing on a particular country and several weeks of language training.

A typical one-day session includes an introduction to the language, religion, history and geography of the country. Participants might act out situations they are likely to encounter, such as

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conducting a business meeting, greeting people, hosting a party or making a phone call. Persons who have lived or worked abroad answer questions and guide discussions.

Often trainers discuss American cultural values so the business people can recognize cultural differences. For example, "Americans get right down to business," points out Helen McNulty, director of Intercultural Communication, Inc., of Minneapolis. "It's hard for an American to wait—to spend an hour socializing."

Orientation can alert business people to local customs, like sitting on the floor in Middle Eastern countries.

IN GENERAL, trainers say that to do business in a foreign culture a person should have an ability to listen, to observe others and behave accordingly, to tolerate ambiguity, to spend time socializing with business contacts and waiting for cues to do business, to conduct business with many people in the room and to allow twice the time expected and be prepared to wait even longer.

Patience paid off for Barbara R. Pick, executive vice president of General Robotics Corporation, a Hartford, Wis., manufacturer of computer parts and systems. After 20 weeks in China on three different trips, Pick secured last year two major contracts totaling $8 million—more than doubling company sales.

"It requires a tremendous amount of patience and persistence to negotiate in China," she says. "You learn to read body language and you know by who's looking at whom at what time just which issues are important." Pick's company has received the Wisconsin Governor's Export Achievement Award.

Having some knowledge of a foreign language can be valuable, and many companies will pay for lessons overseas as well as at home before leaving. Garcia says that if he and a competitor "are selling the same product, and I talk in Spanish, I will get the order."

Every language has cultural cues and nuances as important to know as the words. An American, for example, looks directly at the person to whom he is speaking and expects his listener to look directly at him. In Japan the listener may keep his eyes downcast as a gesture of respect.

An unknowing American might interpret the downcast eyes as shyness, disagreement or simply incomprehension, so the American repeats his words needlessly.

"Our whole philosophy is that language must be taught within the cultural context," says Susan Schuman, director of the foreign language department and corporate training at the School for International Training of Brattleboro, Vt. The school offers intensive language training lasting from two to eight weeks.

In an American conversation, "we do not interrupt a speaker, and a pause is the cue for another person to speak," Schuman says. But in France, "the cue [for the second person] to begin speaking comes from the tone of the [first person's] voice. French negotiations can be difficult for an American."

Companies are encouraged to include the spouse and children in cultural orientation. "I never knew I couldn't work in Europe," says a woman who accompanied her husband when he was sent abroad (neither had received any orientation). In Europe work permits for foreigners are extremely difficult to obtain. "If I could have come home in the first six weeks, I would have," she says.

If the wife is unhappy in the overseas post, very likely the husband and children will be also.

"We came the closest to divorce in 20 years of marriage in the six months we were in Saudi Arabia," says a woman whose husband was helping to train Saudis. "The constraints in the country had a funny effect on him."

Knowing that alcohol was banned in the country, the husband nonetheless—or perhaps because of that—smuggled in a bottle of liquor. "He was crazy," the wife says. "He was like a silly college kid again. This man was a Boy Scout leader, churchgoer, all-American guy back home."

A support system of other Americans can be invaluable in the first several months abroad, but a ghetto life becomes damaging. "A ghetto can be deadly," says Gary Wederspahn, director of training, international services division, in the Boulder, Colo., office of Moran, Stahl & Boyer, a New York-based management consulting firm specializing in business location and employe relocation.

"By isolating yourself you send a message to the locals: 'We consider ourselves better.' Also, people tend to negatively reinforce each other, and that is unhealthy. It's much more healthy to say, 'Things are going to be different' and to adjust."

WHEN THE COMPANY beckons the family home, the adjustment begins again. The return can be difficult. Often, the company does not have a particular job waiting for the employe, his and the family's interests have changed, and the United States has changed.

"Of course there were re-entry problems," says Robert Levy, manager of personnel development for Hewlett-Packard, who spent three years in Geneva.

"In Europe people are much more familiar with global problems. Back here the talk is about the big football game and local high school doings. There's a tendency for you to be resentful and criticize Americans, but then finally you realize it's O.K. and you get back in the swing of things."

Most companies do not provide the returning employe with cultural reorientation, which can be needed just as much as before going abroad.

"Returning expatriates often feel unappreciated and move to a company that is interested in what they learned overseas," McNulty says. "The employe needs some help in finding his place in the company structure again. And companies lose a great opportunity when they don't debrief a returning employe. They could benefit from his experience with other ways of doing business." □

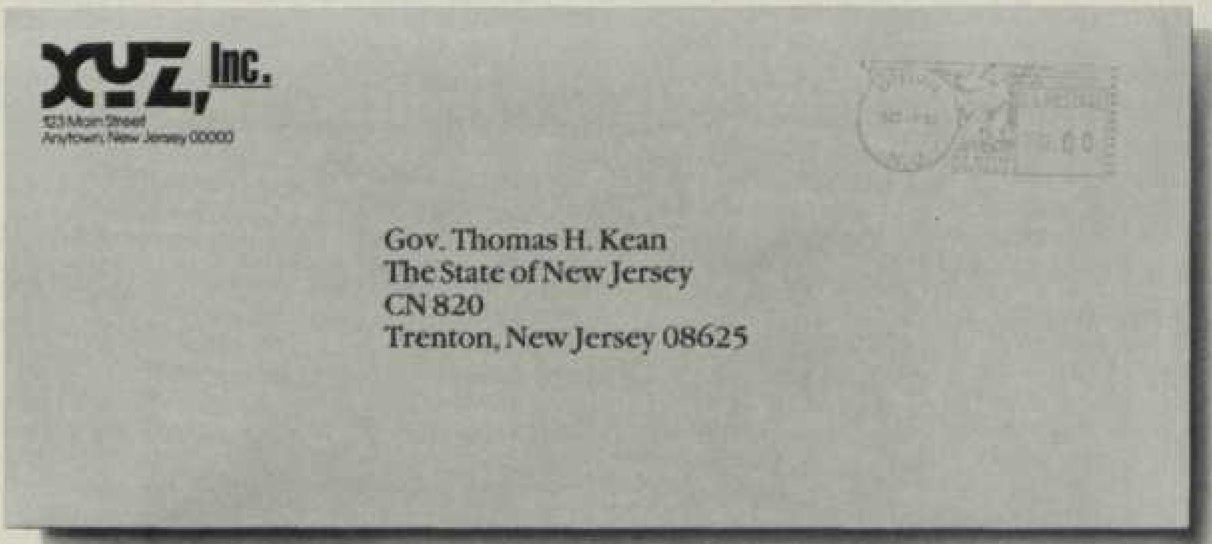
To Learn More

For more information on cross-cultural training, contact Diane Zeller, executive director, the Society for Intercultural Education, Training and Research, 1414 22nd St. N.W., Washington, D.C. 20037. Phone (202) 862-1990. SIETAR, a professional society of trainers, has a library and can provide (for a nominal fee) a computer list of organizations and individual consultants with expertise in a specific country or area.

The 10th annual international SIETAR conference will be held May 21-25 at George Mason University in Fairfax, Va. (outside Washington). The conference is open to trainers, personnel directors and others interested in cross-cultural training.

To order reprints of this article, see page 73.

How to address your business problems.



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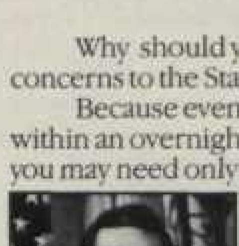

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MARKETING

How Ads Can Sell More Than Products

Corporate image building can pay off with the public—and with your employes, too.

By Francis Houghton

WHEN MOST EXECUTIVES think about advertising, if they think about it at all, it is usually with the idea of increasing market share. Recently, however, more and more companies have started looking beyond simply selling brands. They are, in effect, selling themselves.

They are doing so with corporate, or institutional, advertising. This is not product or brand advertising, but a discipline in which messages are often more subtle and serve more than one purpose.

Corporate and financial services advertising—a tiny fragment of the national ad budget only a decade ago—is now the fastest-growing ad market segment.

Much of this advertising is in the form of "image" spots. (Remember "a company called TRW"?)

The rest appears on the air or in print in behalf of the myriad new financial services available because of banking deregulation.

Briefly, this type of advertising has four goals, although individual ads can address more than one at a time. Corporate ads can:

- Boost employe morale and smooth labor relations.
- Communicate corporate views on business and social issues before special interest groups exert pressure.
- Help newly deregulated industries ease consumer uncertainty and answer investor questions.
- Help diversified companies establish an identity for the parent firm, rather than relying solely on brand names.

To sell a tangible item like a soft drink, the product must be supported by intangible or abstract properties. It is not the soft drink that is being sold so much as it is youth, energy and vitality.

BUT HOW DOES advertising sell a corporation? The secret is to take the position of the company (an intangible) and illustrate it with tangible supporting images. In the case of Merrill Lynch, confidence (the position) was supported by images of bulls running at and over the camera. For Smith Barney, old-fashioned hard work (the position) was supported by the tangible image of John Houseman, the very embodiment of solidity, prudence and industry.

Ads aimed partly at workers are often important, because companies seem never to convey on paper all their plans and goals in terms that employes can understand.

Corporate advertising, however, can reach employes in two ways. First, the very act of advertising is a morale booster, because it conveys the almost subliminal message that "the company is a solid one, or it wouldn't be advertising." Second, the ads can let workers know how they fit into the company.

For Midland Ross, a highly diversified company, my agency focused one

FRANCIS HOUGHTON is managing director of Ogilvy & Mather Corporate/Financial, of New York City.

Corporate advertising can raise employes' morale, fend off pressure from special interest groups and reassure investors. Chrysler's television campaign with Lee Iacocca, its chairman, helped counteract a wave of publicity about the company's financial problems.

ad on airplane parts, to ground the corporate message in reality. Specifically, we talked about a new reading light installed over airliner seats, and how the company (and its employes) were able to make round lights project square patterns.

Through this ad, Midland Ross ceased to be a huge conglomerate and became for the employes a company with a carefully crafted plan of operation in which they fit. This was true not only for the workers who made the lights, but also—by inference—for every design and assembly line in the corporation.

Another familiar ad, "Nationwide is on your side," also is intended for employes as well as potential customers. Helping the Nationwide agents write more insurance is actually the commercials' secondary goal. The ad is primarily a morale booster for the agents themselves: the more confidence they have in the company, the better they will be able to do their jobs.

Corporate advertising also can be used to project a positive public image before there is trouble from special interest groups.

I am often amazed at how many reputable companies wait until they are on the defensive before mounting a coordinated advertising and public relations campaign. How much less resistance would public utilities face when opening nuclear power plants if they had been telling the public about their own safety measures for the past 10 or 15 years? It makes more sense to build a constituency before problems arise than to wait until trouble begins.

Some employe groups already understand that. Several years ago, when states and localities began examining budgets more carefully, some public employes' unions mounted ad campaigns designed to explain the value of their members' services.

Most notably, ads by the American Federation of State, County, and Municipal Employees showed hardworking public servants and, in effect, asked the viewer to imagine life without them.

Unfortunately, American business has not adopted this technique. I have difficulty thinking of a significant example of a major company that has used part of its ad budget to head off potential problems.

Chrysler's ad campaign would have been a good example—if the automaker had defended itself before its troubles became publicly known. Even so, Lee Iacocca's personal appeal on the air was enormously helpful in rescuing that troubled corporation.

Pressure groups exist within as well as outside the corporate world. One large, diversified manufacturing company barely escaped two proxy raids because it failed to consider image building. The company's leadership, thinking about long-term growth, had embraced a policy in which large amounts of profit were reinvested in research and development. That meant somewhat smaller dividends and exposed it to the proxy raids.

After the raids, we helped the company design an image campaign that showed it as the leader and innovator it is. Since the ads ran, there have been no more proxy attempts.

Some newly deregulated industries also have discovered the usefulness of aggressive marketing to inspire trust and dispel confusion. Bankers, for example, were once simply bankers, as they worked within a cage of regulations. Bankers needed only to do their job and do it well. Now bankers (and others in businesses from which operating constraints have been removed) have two tasks. They must do their job well and learn to market themselves aggressively.

Advertising is the single most effective form of mass communications. As our economy continues to change, firms that want to achieve or keep their competitive edge will find new ways to use advertising. Corporate advertising, as a tool and discipline, has not yet reached its potential to help them do that. □

Saving the *Sequoia*

A former presidential yacht is becoming a floating monument.

By Seth Kantor

IT SOUNDS LIKE A movie script: Times are tough, and a U.S. President auctions off the White House yacht to save the government $800,000 in annual upkeep. The aging ship ends up in the hands of promoters who turn her into a dockside saloon. But at last she is rescued by some business leaders who set up a nonprofit trust to make her seaworthy again. Then they launch her on a triumphant tour as a floating national monument. Music up and out.

It is no movie. Instead, it is Washington imitating Hollywood again. The former presidential yacht *Sequoia* has gone from rags to riches.

This month, freshly painted and repaired, the 106-foot *Sequoia* begins a five-month tour along the Gulf Coast, up the Mississippi to the Great Lakes and down the Hudson River—stopping at many small ports, as well as at Houston, New Orleans, Chicago and New York, so that thousands of Americans can come aboard (for free) and share a slice of American history.

Some of America's most fateful decisions were cast aboard the *Sequoia*, which served nine Presidents between 1933 and 1977. Franklin D. Roosevelt mulled over New Deal policies there. Richard M. Nixon told his family there that he was resigning.

Built as a Philadelphian's private yacht in 1925, the *Sequoia* was bought by the government after an earlier presidential yacht was gutted by fire.

Over the years, Harry Truman played poker and the piano in the main salon, Lyndon Johnson had FDR's elevator in the aft salon replaced with a well-stocked bar, and Jimmy Carter had a television set installed in the presidential sleeping quarters.

Nixon spent more time aboard the yacht than any other President, but by then, the "engine made an infernal noise, inhibiting conversation," Nixon's Secretary of State, Henry Kissinger, recalled in his memoirs.

Carter became annoyed by the rising cost of maintaining the ship, which was loaded with sophisticated gear—including a special Secret Service communications room—but was too frail to put out to sea.

The *Sequoia* was ordered sold at auction in 1977. She brought $270,000.

Treated pretty much as a sideshow by a series of private owners—at one point tourists were herded aboard at $3 a head—the *Sequoia* fell into greater disrepair. In 1981 a small group of business people formed the Presidential Yacht Trust to restore the ship and maintain her as a national treasure.

The trust was beset by management problems at first—at one point, the *Sequoia* was impounded by federal marshals over an unpaid $1,300 fuel bill. Largely through the efforts of Richard W. Arandsee, chairman of Four Winds Enterprises, a transport business in San Diego, Calif., the trust was reorganized in the summer of 1983.

President Franklin D. Roosevelt and his wife, Eleanor, greeted visitors to the *Sequoia* in 1933, the first year the yacht was used by a President. At right: the ship as she appears today.

NOW THE TRUST is embarked on a $10 million fund-raising campaign aimed at making the *Sequoia* "a movable, living national monument that will outlive us all," says Travis Stewart, acting chairman of the trust and a vice president of Hoffman-La Roche, the pharmaceuticals firm.

Stewart expects to erase the *Sequoia*'s money worries for "countless decades through tax-free bonds that can be rolled over every 20 years."

Corporations or individuals can contribute up to $50,000 apiece, tax-free, to the trust; they will then be entitled to limited use of the ship and to having their names inscribed on plaques in the dining area. Otherwise, the *Sequoia* will be available for use only by government officials and for certain charitable functions.

The trust plans to take the historic yacht to the people of the nation once every four years. This month's cruise will be the first of these special trips. It is being launched from the *Sequoia*'s temporary winter home in Florida.

Stewart says he hopes to have the yacht permanently berthed soon in Washington's Navy Yard. Whether that happens or not, the trust has made a great deal of progress in a short time. There is no longer cause to wonder, as Kissinger once did, if the *Sequoia* can make it more than a few miles down the Potomac to Mount Vernon and back. □

Lifelong Weight Control

By Phyllis M. Barrier

Low-calorie snacks like unbuttered popcorn can help keep extra weight off—and so can a diary of what you eat.

BUSINESSES know the difference between short- and long-term planning. Firms that think only of the short term may enjoy quick success, but they are often sowing the seeds of future troubles. The same is true of the dieter who thinks only of the short term.

Ideas for short-term diets are plentiful in the media and health food stores, and some companies sell products to help you lose weight rapidly. Some of these quick-fix diets can lead to serious health problems—or even death. Ironically, some diets that are supposed to make you look better can cause hair loss, or loss of lean tissue instead of fat.

Even so, I have found in working with people who want to lose weight that most of them want to lose it as quickly as possible, regardless of adverse effects on their health. Why? So they can return to the same eating habits that got them fat in the first place.

In most cases, they have already tried to lose weight several times. They were successful—but then they gained back what they had lost. And they rarely understand why.

Losing weight is always difficult, but long-term planning will certainly increase your chances of not just dropping those extra pounds but, most important, keeping them off.

The first step is to determine if you are really motivated to make lasting changes in the way you eat every day. If not, you will be better off simply trying to maintain your present weight (unless you are extremely obese), for several reasons:

- When you follow a very low-calorie diet with insufficient protein, the body will start breaking down muscle tissue to meet its needs.
- Wide fluctuations in weight (the yo-yo syndrome) are damaging to health; gaining and losing weight is a strain on the body.
- The basal metabolic rate can be slowed down by a very low-calorie diet; when normal caloric intake is resumed, weight gain is accelerated.

After you have examined your motives, you must determine the kinds of permanent changes you need to make—and can realistically make—in your eating habits. To do this, you must write down what you eat.

People try to fool themselves. They usually say, "I don't know why I gain weight; I really don't eat that much." Then, when they discuss what they ate the day before, they say, "Well, yesterday was a bad day. I usually don't eat that much." It is essential to long-term planning that an honest record be kept.

It is sometimes helpful if you also write down your mood (do you eat more when you're depressed?), the time (do you always overeat in the evening?) and how hungry you are (most people do not overeat because of hunger but for other reasons).

After you have kept the diary for several days, evaluate it to spot your weakness. Is it sweets, salty snacks or just too much good food?

It is obvious from many such diaries that food is often used to fill some void. The dieter must realize that food is not a good substitute for job satisfaction, companionship or romance. Perhaps the dieter can take up a hobby or learn to walk off irritations and disappointments instead of eating them away.

Now to the food itself. Eliminate excess fat from the diet first. Fat is 2¼ times more concentrated in calories than carbohydrates and protein. One example of a permanent dietary change that would reduce fat consumption: stop adding butter or margarine to vegetables and bread.

If you eat too many sweets, try to cut down to one serving per day (a half cup of ice cream—not a banana split), then perhaps to three per week and then to one per week. And try to substitute fruit for candy or pastry.

Substitute low-calorie foods for higher-calorie snacks. For instance, eat butterless popcorn (25 calories per cup) while you are watching television, instead of cashews (785 calories per cup).

NOW YOU ARE on your way to planning your diet for the rest of your life. Set reasonable goals for yourself and pursue them. Re-evaluate your diet occasionally and set new goals when you have achieved your earlier goals.

When you have met one of the goals, reward yourself—but not with food. For example, buy yourself something you have been wanting, or go on a special outing.

Continue to record what you eat until your habits have permanently changed. Food records help you to stay on your diet. Whenever I have given a client a week or two off from keeping records, weight loss almost invariably stops.

What should you expect from a diet? Most health professionals recommend losing no more than 1 to 2 pounds per week. Slow weight loss gives you time to develop and adopt permanently the changes you must make.

Weigh yourself only once a week. I recommend weighing on Saturday morning and keeping a chart of your weight so you can see your progress.

What do you do when you fail to adhere to your diet? Notice that I said when—not if. You can expect to have some small failures. The important thing is to accept them and keep dieting. Stick to your game plan. □

PHYLLIS M. BARRIER, *a registered dietitian, is a public health professional and nutrition consultant in the Washington area.*

Business On The Move

All sorts of enterprises are being taken where the customers are. Should your firm be put on wheels, too?

By Carol Dilks

Maryland veterinarians Deborah and Ray Craft deliver animal medical care in their Petvacx van. An owner steadies man's best friend (above) as the Crafts take a blood sample.

PHOTOS: DAVID VALDEZ

WE HAVE LONG BEEN called a nation on wheels. Now the phrase is taking on new meaning, as more and more businesses hit the road.

Many entrepreneurs find that packaging a business in a van, truck, bus or car is a way to rejuvenate an existing firm or launch a new one. Should you put your own business on wheels? Others' experiences can help you decide.

Take a Matawan, N.J., hardware store owner, the late Anthony Giordano, Jr. He was the neighborhood answer man for home problems, particularly those involving lawns. With years of experience in feeds, seeds, pesticides and weeds, he became the local expert.

Giordano made the most of his special knowledge by hitching a trailer 15 years ago to his old Chevy and making house calls as the Lawn Doctor. Today the business he founded—now a corporation—has 290 franchised outlets in 23 states with about 700 vans rolling out daily. On average, the vehicles gross $100,000 each annually.

Business people who have found success on wheels report their insurance costs and pilferage losses are lower. And they skip the major expense of storefront space, with its furniture and fixtures. If they require any space at all, it is for administrative use or warehousing and can be located far from high-rent districts.

They find that customers appreciate the convenience that a mobile service offers, and the service benefits from meeting the customer away from distractions (competitors, for example). One entrepreneur, who travels to golf and tennis clubs with his pro shop on wheels, says he profits from catching his athletes far from their telephones.

Going into the home has direct benefits for a firm like Decorating Den Systems. This Indianapolis-based service began in 1969 when Steven Bursten, a wholesaler of decorating fabrics, packed a van with samples of window treatments, wall coverings, flooring and upholstery fabrics and started visiting homeowners to help them choose items that worked with their existing color schemes and lighting. The company now has 140 franchises, which own 175 vans. There are 325 salespeople, all trained by the firm in decorating as well as management.

"People can try to describe what they want," reports Ellen Madill, who owns a Decorating Den franchise in Voorhees, N.J., "but when you get to their homes, you see they haven't done a very good job. With the van, you just walk outside and bring in additional samples. You've always got something appropriate to show someone on the first visit."

As new franchise owners join the company they receive decals of the Decorating Den logo and stripe to apply to their own white vans. When no sales calls are on the schedule, owners drive the vans around target neighborhoods to advertise their presence; they also hand-deliver fliers and newsletters.

Some entrepreneurs combine at-home service with fixed locations. Ray and Deborah Craft, a Wheaton, Md., team of veterinarians serving suburban Washington, have found a way to do this without maintaining a stationary clinic. They bought a $24,000 van, stocked it with necessary equipment and supplies and put their Petvacx in gear.

Identified as a "mobile veterinary outpatient service," Petvacx makes house calls at $20 a visit. Any number of neighbors may split the house call fee and then pay their own pets' treatment charges.

The Crafts also station the van in specific parking lots at specific times. Customers drive up, without appointments, to get anything from vaccinations to minor surgery on the spot for their animals.

Petvacx clients like the easy walk-in service, but they like the prices even more. Because of low overhead, fees are about half those charged by other animal clinics. The Crafts have to refer some cases to local clinics—anything that requires general anesthesia, for example—but in time they expect to open their own. On-wheels service, however, will continue to be their top priority.

IF MOBILE CARE for pets can be lucrative, how about mobile care for people? Robert Kaplan, a New York City optician, created Wheels of Vision. Traveling with an associated optometrist—while another minds the store he still maintains—Kaplan totes in his car specialized devices for complete eye examinations, checking of current prescriptions and soft lens fitting. He also has a portable case holding 100 eyeglass frames for customers to choose from.

Wheels of Vision has found its market in the expanding population of the elderly, who now make up 90 percent of its clientele. The service basically reaches this group where it has already been assembled, at old age homes and day centers, but it also travels to peo-

CAROL DILKS *is a free-lance writer based in Philadelphia.*

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ple's homes and to executives who cannot make time for office visits.

Many a good business has slow stretches before it is really rolling. The veterinarians sat in their van for three months before their service caught on. Wheels of Vision took about two years to achieve success, during which time the owner had his fixed-location shop to count on. To get their messages across, most companies have relied heavily on direct-mail campaigns, bolstered by a combination of newspaper, TV and radio advertising.

"I did a lot of research," recalls veterinarian Deborah Craft, "and found that direct mail would be the most effective way to advertise, but we just couldn't afford it." So she made some calls to see whether she could interest her local newspapers in writing articles about the service. The newspapers—including the *Washington Post*—responded positively, and Petvacx was on its way.

On the other hand, Lawn Doctor had no start-up slump at all—and no need to advertise—because founder Giordano had previously developed a firm base of clients. For years before he went on wheels, this lawn expert held Sunday seminars for his hardware store's customers. A good number of them were glad to sign up for the service when it became available, and when Giordano worked on their lawns, he gave free evaluations to curious neighbors who came over to inquire, thereby cultivating a second crop of customers.

ANOTHER BUSINESS that had ready-made customers belongs to the American Automobile Association, whose auto diagnostic vans in some locations have waiting lists of as many as 1,000 car owners. In the Washington, D.C., area, for example, vans make calls at four locations, serving car owners who are largely, but not exclusively, drawn from AAA's membership. Each van is set up to do 40-minute checks of engine performance (which result in printouts with computerized analyses) and a visual check of everything under the hood by the driver-technician. Service is by appointment only and costs $30 per car ($40 for nonmembers).

AAA believes that it is able to serve more of its members with the vans than it could with a fixed location and that it is saving money by using the vans. The service is available in Chicago, Baltimore and Northern California, as well as in Washington, and AAA plans to expand it to other areas.

Like Petvacx, many new businesses on wheels are frequently innovative enough to enjoy media attention. Now or Never, a Los Angeles mobile fitness center, was written up in national publications within 10 days of its opening.

The stories drummed up a lot of interest, especially one story that featured a photo of founders Hans Buhringer and Ann Turkel, a strikingly handsome couple, standing behind one of their five custom-made trucks—with the company's telephone number clearly visible. Now or Never now has more trucks and has begun franchising in other cities. In each truck, ceiling, walls and floors are lined with pearl-gray industrial carpeting, and there are mirrors and one-way picture windows. The appearance, according to Turkel, an actress and the firm's vice president, is "very state of the art."

PHOTO: DOUGLAS KIRKLAND—SYGMA

Now or Never founders Ann Turkel and Hans Buhringer demonstrate gear in one of their mobile fitness units.

The firm delivers personalized workouts and nutritional guidance to each client's front door. For $50 an hour the customer uses the truck's $10,000 worth of exercise paraphernalia, including rowing machine, stationary cycle, heart monitors, weights and biofeedback machine, all under supervision of a trained private coach (who doubles as a truck driver).

Now or Never started with some major expenditures for customized trucks and equipment. But most businesses on wheels don't require such a large initial investment.

The Pac Van, a Bethesda, Md., video arcade on wheels, is housed in a used school bus. Owner Bette Forman, who had previously been a real estate agent, florist and owner of a secretarial service, had all the passenger seats removed. She put sheet metal over the windows to create a dark interior and added a generator and wiring. To make the bus usable year-round, she installed heating and air-conditioning. Then she bought 11 video games at about $2,500 each and started making the rounds of festivals, fairs, school yards and private parties (with party rates of $70 to $130 an hour).

She has had only one problem with her vehicle. That was a party for basketball players. "Anyone over 6-foot-1 has to duck," she advises.

THE SPECIFICS of the vehicle depend on the business. The Petvacx veterinary team was looking for a particular floor plan; the Pac Van needed standing room; Lawn Doctor needed compact storage space and adequate load bearing. They all needed a professional design and lettering on the outside so that the vehicle would be a powerful traveling billboard.

The veterinarians went to a trade show of recreational vehicles and checked out dozens before they found one that was right for them. It needed so little modification they could do the job themselves. Decorating Den's Ellen Madill did her own modifications, too. In other cases, the help of a carpenter may be all that is needed.

When major alterations are necessary, most businesses on wheels rely on experienced RV conversion specialists, who can get the average job done in under two weeks (look in the Yellow Pages under recreational vehicles or automobile customizing).

The Recreational Vehicle Industry Association recommends finding a converter who certifies that his alterations comply with National Highway Traffic Safety Administration standards. William Garpow, RVIA's vice president of communications, says a converter who is a member of that association will be "aware of his responsibilities in meeting federal and state requirements."

To get a good look at the types of vans available, and at ideas on how to outfit them, spend a day at an RV trade show. There is one in every major city, usually some time between January and March.

For the dates and locations of RV shows in your area, contact RVIA, P.O. Box 204, 14650 Lee Road, Chantilly, Va. 22021, (703) 968-7722.

"There's virtually an infinite number of potential businesses on wheels," says Russell Frith, Lawn Doctor's president. "Our society is more and more convenience-oriented, leisure-oriented and service-oriented. All the big business analysts predict service businesses will continue to expand. And service is what businesses on wheels give." □

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If you've never heard of Iveco, Ford and GM would prefer to keep it that way.

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Getting the Right Price for Your Firm

In the market where companies are sold, the buyer has the edge. Here's how you can even things up.

By Richard M. Rodnick

SOME 12,000 American companies will change hands this year. Half of the sales will be within the companies or to families. Business brokers or specialists in mergers and acquisitions will handle about a fifth of the external sales. The remaining sellers will be do-it-yourselfers.

Let the seller beware. An owner may sell a business once in his lifetime, but a buyer may acquire several businesses a year. Analyses of mergers and acquisitions show that the ratio of buyers to sellers is about 6 to 1. The average corporate buyer will acquire seven companies in two years and the average private buyer, five. There is more money chasing good deals than there are deals available.

This means that if you are a seller, you probably have less experience in negotiating a deal than do your prospective buyers.

Most owners, because they lack experience, make several key mistakes when selling their businesses. First, they approach their competitors, suppliers and customers as prospective buyers. This is a mistake because if the deals fall through, a good deal of confidential information about their businesses has come to light. The seller's ability to get the best price in future negotiations may be impaired.

Second, about 75 percent of sellers set their selling price too low. "Who would ever want to buy this difficult business?" they wonder. And they lose the opportunity to get as much money as they could by pricing it right.

Why sell? According to a study by Geneva Corporation, boredom and burn-out are the most common reasons that owners of small and medium-sized companies decide to sell.

Another common reason is the "prudent man rule," which says it is imprudent to have more than 20 percent of your net worth in any single asset. Many owners realize that they have that much and more tied up in their business. They come to the conclusion that they would be wiser to spread their money into some investments that do not depend on personal, ongoing involvement.

One factor now causing some entrepreneurs to accelerate plans to sell their businesses is the possibility of unfavorable changes in capital gains tax rates; some observers believe such changes may take place next year.

The current maximum long-term capital gains tax rate is 20 percent; if an increase is enacted, that would signal a drastically changed climate for both buyers and sellers of businesses.

To illustrate how today's favorable capital gains tax law can benefit an entrepreneur who is thinking of selling his business, consider the following example. It assumes an annual profit of $100,000 and a selling price of $500,000. The corporate tax is what could be expected on a $100,000 annual profit. The rate is on a graduated scale, ranging from 15 percent of the first $25,000 of profits to 46 percent for any over $100,000.

	Operate business	Sell business
Annual profit	$100,000	N.A.
Business sold for	N.A.	$500,000
Corporate tax	($25,750)	N.A.
Balance	$74,250	$500,000
Personal income tax @ 50%	($37,125)	N.A.
Capital gains tax @ 20%	N.A.	($100,000)
Net after tax	**$37,125**	**$400,000**

RICHARD M. RODNICK *is chairman and chief executive of Geneva Corporation, a Santa Ana, Calif., firm that specializes in mergers and acquisitions of businesses selling for $50 million and less.*

The entrepreneur's after-tax net from the sale of his business is $400,000, compared with his yearly after-tax net of $37,125 as an owner. It would take him more than 10 years of ordinary earnings to realize what he nets by selling the business.

This means that many entrepreneurs today can look forward to working for nothing in the next 10 to 20 years if they hold on to their businesses.

If you decide to sell your business, here are some guidelines that should enable you to get the most money:

• Start the wheels rolling now. Experience has shown that selling a business often takes a year to complete. This includes nearly 400 hours of meetings on such activities as market research, drawing up a prospectus and structuring the terms. Buyers and sellers starting today are probably looking at early 1985 to close a deal successfully.

• Get an objective, third-party evaluation of your business' strengths and weaknesses. Invaluable to you and your prospective buyer, this documentation will determine fair market value and demonstrate future opportunities to the buyer based on thorough, realistic market research. Remember: The No. 1 reason buyers buy companies is for profit potential. The No. 2 reason is that it is easier to buy assets than to build them.

A conservative rule of thumb is to set your selling price at five times your annual profit—which is why a $500,000 price was used in the preceding example. The actual price-earnings ratio will vary, of course, depending on how much net worth is involved, whether the sale is internal or external, and other factors.

Closely held companies normally have done everything possible in their financial statements to suppress earnings in order to minimize their taxes. To interest buyers, a different strategy is necessary—one that emphasizes profit potential.

A business evaluation uses accepted accounting methods to recast your company's financial statements of the past three years and earnings forecasts for the next three to five years. In recasting, for example, the owner's direct and indirect compensation would be taken out and replaced with the cost of having a professional manager in place. Using market research data and assuming new owners who have the capital and desire to build the business, the evaluation also would project a five-year plan for the company—including financial, sales and marketing strategies and organization needs.

• In addition to the detailed evaluation, your prospectus should include a one-page summary of your business. Include your approximate annual revenues, recast profits, age of business, type of products or services you offer and what's special about your business in its market.

• Keep in mind that the ideal buyer is often located in another part of the country. To find potential buyers, write to presidents of small to medium-sized banks outside your geographic area; your public library can help you identify them. Bankers often have customers who would appreciate learning of a good acquisition candidate in another part of the country. Some of them might be eager to obtain an established position in your market by acquiring your business and your account list. As you search for a buyer, put yourself in the prospective buyer's shoes. Analyze your account list. To whom would your accounts have value?

Be discreet. Employes and customers may get nervous if they know you're selling.

• Be discreet. Confidentiality is essential. The more people who know a business is for sale, the less value it may have. For example, when employes learn their company is for sale, the rumor starts: "We are all going to be fired!" The seller thus runs the risk of losing key employes who are concerned about their security. He also runs the risk of losing buyers, who want a going, well-staffed business.

When key customers or vendors learn that a business is for sale, they often become concerned about the servicing, pricing and availability of products under new, unknown owners. The net result may be a weakening of your company's sales and reputation.

If you decide that selling your business is not a do-it-yourself job, where can you get help? Owners of very small businesses—those that will sell for less than $1 million—can obtain help from local business brokers. Ask your banker, attorney or accountant for a referral or check the "Business Brokers" listing in the Yellow Pages. A broker will charge you a negotiated percentage of the sale price. Often, it will be on a sliding scale: the higher the price, the lower the percentage.

Many owners of businesses expected to sell for $1 million or more turn to merger and acquisition specialists to handle the sale. Again, your banker might be able to refer you to someone, or you might obtain a referral from a company that has recently been acquired. Such professionals also advertise in national financial publications.

On average, a merger and acquisition specialist will charge $25,000 to $35,000 for a business evaluation and the development of a strategy. After the evaluation, the cost typically will range from 1 percent to 10 percent of the selling price, depending on the size and the structure of the deal, with a credit for the previously paid evaluation fee.

A specialist should be able to offer you experience in finding the best buyers. He should also be able to obtain the true market value of the business, present your company in the best light and structure the deal so it makes the best economic sense for both seller and buyer. And he should know how to close the deal in a way that reduces the chance of future liabilities for both parties.

If you decide to sell your business yourself, you should still get outside help in creating your prospectus. One good source is the faculty of your local college or university. The head of the business administration department may welcome the chance to earn additional consulting fees. And perhaps the director of the school's marketing courses would be willing to prepare the prospectus' marketing section. However, have your attorney check the final document to ensure that any disclaimers are properly worded.

Whether you sell your company yourself or use a professional, remember that the process of buying and selling a business is driven by three forces.

First and foremost, the deal must make economic sense to both parties. Second, there must be accurate documentation about the business that is sufficient for the buyer to understand its potential. Finally, the chemistry must be right between buyer and seller. There can be no surprises, such as litigation that was not disclosed to the buyer early in the discussions, variances between book value and market value of assets, or unreasonable inventory policies. (Is the seller holding onto out-of-fashion merchandise in hopes it will sell someday?) Candor is paramount to a successfully completed deal. □

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Where I Stand

1. Should OSHA Be a Policeman?

During the Occupational Safety and Health Administration's first 10 years the agency became increasingly aggressive in enforcement. Strict compliance with regulations became OSHA's mission as the number of inspections, citations and fines increased.

Current OSHA administrators, however, stress voluntary programs, consultation, self-certification and increased employer responsibility. For example, OSHA carried out nearly 8,500 inspections in 1982 without a walk-through after a records check showed that workers were being protected. OSHA officials now say their goal is to protect workers, not to assess fines.

Nevertheless, many still argue that all employers need to be policed and that OSHA must be their adversary. Because employers have to be forced to protect their workers, the argument goes, OSHA must serve as a policing agency, not a cooperative consultant.

So the current debate in Washington about OSHA centers on how the agency can best protect the interests of American workers.

Should OSHA's primary role be policeman or consultant?

2. Does U.S. Need A Development Bank?

The U.S. economy is undergoing major structural changes because of rapid technological advances and unsettled world markets.

In order to meet the new economic challenges, vigorous companies need access to credit and dead-end firms should be discouraged, economists maintain.

To further those ends, the Democratic leadership in Congress has proposed creation of a national industrial policy under which a national development bank would re-allocate credit.

Opponents of such a central credit institution say its functions are already being carried out through the U.S. economy. They cite the success of high technology firms as evidence that growth companies already have access to credit, and they note that during the 1970s the United States was one of only three major industrial nations with a rise in manufacturing employment.

Those opposing a national industrial development bank say such a government institution would distribute funds to companies with political clout, not economic potential.

Should the United States create a national development bank?

3. Restrict U.S. Firms In South Africa?

The role of U.S. business in South Africa has long been controversial. Some argue that any American presence in that country amounts to support of its apartheid system of racial segregation. Others, including many business people, say an American presence can help the black majority.

Seven years ago the Rev. Leon H. Sullivan, a Philadelphia civil rights activist, drew up guidelines to promote equality for South African black employes of U.S. firms. Adoption of these principles has boosted desegregation on the job at such firms, upgraded employe benefits packages and increased the number of black supervisors.

The Export Administration Act now before Congress would make the Sullivan guidelines mandatory and impose other restrictions on U.S. involvement in South Africa. Some fear the next step would be forced withdrawal of U.S. interests from South Africa.

Proponents of the current voluntary system maintain that a U.S. presence helps South Africa's blacks and that U.S. legal restrictions could force U.S. firms into violations of South African law.

Should U.S. business in South Africa be restricted?

You can respond easily to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on Product Liability, IRAs, Capital Gains

Readers were overwhelmingly positive in answering January's three Where I Stand questions: Should there be one law on product liability for the whole country? Should $1,750 in nondeductible contributions to IRAs be permitted? Should the holding period to qualify for the long-term capital gains tax rate be cut to six months?

On all three questions, a majority of our readers answered in the affirmative. The support for substituting a federal product-liability statute for the current hodgepodge of state laws was nearly identical to that for allowing a $1,750 nondeductible contribution to be added to the tax-deductible earnings that now may be put into an Individual Retirement Account. Respondents also favored halving the holding period for obtaining the long-term capital gains tax rate.

	Yes	No	Undecided
1. Product Liability	85.6%	8.8%	5.6%
2. IRA Limits	85.5	10.7	3.8
3. Capital Gains	66.3	25.1	8.6

More than 2,000 readers took part in the poll. Results will go to appropriate government decision makers.

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John Elkington (left) and Steve Keltner are bringing life back to Beale Street, Memphis' historic entertainment center.

The Birthplace Of The Blues Is Reborn

When the Elkington & Keltner Group of Memphis began restoration of the city's famous Beale Street—"birthplace of the blues"—two years ago this month, a number of Memphians speculated that it was the six-year-old development company's biggest gamble yet.

"Failure" seemed to be Beale Street's middle name. For nearly 11 years, Memphis had been trying to launch a redevelopment of the historic district, a mecca for jazz musicians in the 1920s and the place where W.C. Handy wrote "The St. Louis Blues." Three efforts had fallen through. Public officials and private developers involved in the venture had come and gone. One headline writer called the whole mess "the blues of the rebirth." Why should John Elkington, then only 33, and his partner, Steve Keltner, two years older, succeed where others had produced little more than disappointment?

To the city's delight, the first phase of the three-block entertainment center was opened in October. When the entire project is completed, it will house restaurants, shops, theaters, offices and nightclubs—including the Silver Fox, owned by country blues star Charlie Rich, and Lou's Place, belonging to singer Lou Rawls, the official spokesman for Beale Street.

Cost: $30 million in public and private funds. The district is owned by the city, and Elkington & Keltner will continue to manage it on a commission basis.

What made it come together at last? According to some observers, it was the synergy of three men who took leadership roles with the project only after Memphians feared it was dead: the Rev. James Smith, chairman of the nonprofit Beale Street Development Corporation; Allen Boone, director of the city's division of housing and community development, and Elkington, Smith's choice to develop Beale Street.

Elkington's firm had already begun to win notice for office and condominium development. It built the city's first planned unit development, but its riskiest undertaking, perhaps, was the conversion of a historic school building into condominiums. Elkington thought it was a "building worth saving" and says the successful project "really got us Beale Street."

Beale Street had to be developed in a racial and historical context, Elkington notes. "It was a center of black commerce and entertainment." The new team worked to get sufficient black participation in the project (so far, about 40 percent of the tenants are black) while assuring white business involvement. It also worked out what Elkington calls "a better partnership" between the city and private interests.

Keeping everything in the open was another factor in the project's success. Says Elkington: "Everyone knew what we were doing. It was no surprise. There had never been that openness."

The friendship between Elkington and Keltner began when they met in line at law school at Memphis State University. ("It was a long line," says Elkington.) Keltner quit law school to handle real estate for a bank. Elkington spent a short time in a law firm, then learned construction "from the ground up" under the tutelage of one of the city's top builders.

The two friends founded their own firm to get into condominium management and development. "I had only $500 and no lines of credit," says Elkington. "We were totally undercapitalized. You couldn't do that today."

Now the Elkington & Keltner Group consists of five companies, all related to real estate development or management. Elkington, president of the group, handles administration and finance and supervises construction activities. Keltner, corporate secretary, oversees marketing and architecture.

From $93,000 in business their first year they are projecting $26 million this year, with projects in such places as Destin, Fla., and Little Rock, Ark. But Beale Street really put them on the map. It got them another historical project to do—Nashville's Union Station, a $30 million redevelopment that will break ground in June. That has been in trouble only 10 years.

—Sharon Nelton

Better High Tech Through "Nontech"

About a year and a half ago, Phil Cooper sold his company, Computer Pictures, for $14 million. But his story is a bit different from those of other high tech stars.

Cooper, 32, was the founder, president and chief executive officer of a pioneer firm in a highly technical field, computer graphics software. But, he says, "I didn't know what 128K of RAM meant when I started the company three years ago, and I still don't."

To listen to Cooper, you would think he has never heard of a computer. Cer-

tainly most people would dismiss his chances of striking it rich in high tech. He majored in communications at Syracuse University, but not the electronic kind. And after college he held a succession of "soft" jobs.

"I always had the notion that I'd like to be in business for myself, but never in computers," he says.

The inspiration came in an advertising job in New York. Cooper was frustrated by his employer's management information systems. He could not understand the rows and columns of numbers the computers were spewing out. Cooper figured that executives, usually unfamiliar with computers, must feel the same way. That was when he decided to start Computer Pictures.

The idea was simple: Use pictures—bar and pie charts—to explain computer output, and aim the product not at data processing people, but at chairmen and presidents of major corporations. "I wanted a product so simple an executive could use it," quips Cooper.

First he started talking with friends at work about his idea; then he read articles about computer software and management information systems. He quit his job and moved to Boston. He thought it would be a nice place to live, and it was also a center for high tech and high finance—and he needed help in both areas, particularly high finance.

Cooper started the company on $400—all he had at the time. Friends and relatives contributed some money for Cooper to live on, but not enough to launch a business. So he paid fruitful visits to three venture capital firms.

"I found $2 million of venture capital, which suggests to me that a lot of other people saw the computer service industry the same way I did," he says.

Cooper feels his particular contribution was stressing his computer system's benefits rather than its technology. Simple? Yes, but the idea had not been tried. According to Cooper, the industry is dominated by engineers who understand the technology far better than the needs of the people who are going to use the product.

"It would be like selling shampoo on the basis of its chemical compounds rather than on what it's going to do for your hair," he says.

He hired the engineers he needed to design the software, but Cooper himself was the guinea pig. If Cooper could not use a program in the first try, without an explanation, it was too complicated and had to be redesigned.

The result: software that provides operating and financial information at a glance. It is in use in such companies as John Hancock, Gillette and Merrill Lynch. With one touch of a button, for example, an executive might bring up on a screen a colorful chart that tells how a particular product fared in a given region in the last quarter.

Did the Cooper "nontech" approach work? According to John Cullinane, chairman of Cullinet Software, Inc., in Westwood, Mass., Computer Pictures is worth twice the $14 million his company paid for it.

As for Phil Cooper, he has gone back to school as a Sloan Fellow at the Massachusetts Institute of Technology. Why, when he is already a millionaire?

"Next time I want to do it right," he answers with a laugh.

—Mark O'Brien

PHOTO: RICK FRIEDMAN—BLACK STAR

After selling his computer graphics software firm for $14 million, Phil Cooper is going back to school because, he says, "Next time I want to do it right."

A Baker's Dozen? A Baker's Millions!

Who would think that a sweet Portuguese bread would make a fortune for the once dirt-poor son of Japanese immigrants?

That delicacy, free of preservatives but possessing a one-month shelf life, is the mainstay of Robert Taira's business and has turned the 60-year-old Hawaiian baker into a millionaire. (He sells other delectables too—pastries, cakes and pies.)

One of 10 children, Taira started working in the fields of a sugar cane plantation outside Hilo, Hawaii, at 13. From then on, his entrepreneurial spirit took hold: He grew vegetables and sold them throughout the workers' camp; he rode the school bus for free by filling in as a part-time driver; and he ran his own transportation company at 19.

While in the U.S. Army, Taira became fascinated with the monumental task of efficiently feeding thousands of soldiers and realized that providing food could be a lucrative enterprise. Once out of the Army, he went to baking school. He opened his first bakery in Hilo in 1950, using as start-up capital $3,000 his father gave him.

Concentrating primarily on the sweet bread, a product inspired by the bread a Portuguese family often made on the plantation where Taira had worked, the bakery grossed $60,000 the first year.

Venturing into Honolulu, Taira opened King's Bakery (named for the street on which it is located) in 1961. In five years, its annual gross had risen to $750,000.

"Hard work, knowing my customers' wants and keeping quality a No. 1 priority" helped lift the business to its present sales of $5 million a year, Taira says.

There is still more to his empire: three coffee shops in the Honolulu area and one in Tokyo; a sushi bar and restaurant in Honolulu; and a franchise, covering the Western United States, Hawaii and Japan, for an ice cream made from soybeans.

Also, Taira decided to invade the mainland wholesale market with his most popular product, the sweet bread, to be made at a $3 million plant in Torrance, Calif.

There were problems. The bread, prepared in Hawaii mostly by hand, balked at being kneaded by machines in California. It took three months of adjustments before the loaves began to taste consistently like their hand-mixed counterparts.

Sales slipped because the sales force

Robert Taira started with one bakery in Hawaii. Now he has successfully invaded the mainland market, making a sweet bread in a $3 million plant.

was not large enough to keep in touch with supermarket branch managers, who can make or break a product. This problem was resolved when Taira began marketing the bread through food brokers, who are constantly talking with store managers.

Now sales average around $10 million a year on the mainland, and a plant will soon open in South Carolina to serve the East Coast.

Taira's advice to fledgling entrepreneurs: A college education is an asset, but only if it is used properly.

"People who have a college degree have a lax attitude that they can go anywhere and get a job," he says. "But the person without the degree is going to compete all the harder knowing that he is the underdog. Those with college educations must realize that they have to work as hard as those without. Then they will have the upper hand, because they will not only possess technical knowledge but mental resilience as well."

As one of the underdogs, Taira has proven his mettle, but he has no wish to stop. Next on his agenda? "Going retail with the bakery and coffee shops on the mainland is a distinct possibility."

—Mary-Margaret Wantuck

The Consultants' Consultant

Howard L. Shenson did the usual things when he started working as a consultant a dozen years ago: marketing and management consulting, training and applied research. At first consulting was something he did part time while on the faculties of the University of Southern California and California State University at Northridge, where he was chairman of the management department.

But he liked it so much that he went into it full time. Soon the Woodland Hills, Calif., entrepreneur had a staff of 15 consultants and a number of part-time free-lancers. And he found that people already in consulting firms of their own were seeking him out for advice on how to be more successful. Still others wanted to know how to get into consulting.

Shenson got the message: He could be the consultants' consultant. He could tell people how to sell themselves to potential clients, how to negotiate a contract and how to price their services. (The average consultant bills 10 to 12 days a month; the median daily billing rate is $631, Shenson says.)

Seven years ago, he tested a seminar, called "How To Build and Maintain Your Own Consulting Practice," in California. Since then 30,000 people have attended the seminar, in locations throughout the United States and once even in London, at prices ranging from $95 for a one-day session to $285 for three days.

Once in the seminar business, Shenson began to branch out, creating books and audio cassettes and developing a second seminar on the marketing of seminars and workshops. He also started two monthly newsletters—"The Professional Consultant" and "Seminar Business Report"—with a combined circulation of more than 4,000 and an annual subscription rate of $60 each.

What kinds of consultants does Shenson, 39, help? Most work with businesses in all the traditional business functions, he replies. But seminar students also have included a Texas widow with a flair for giving parties. She is now a party consultant, with both corporate and private clients. Another was an 18-year-old Californian who was earning more than $70,000 a year advising business people how to design skateboard parks that would appeal to kids.

He really wanted advice on whether he should stay in consulting or go to college. "Do both," Shenson told him. "You don't know how long skateboarding will be in vogue."

Shenson contends that consultants have more economic security in hard times than do people who work for someone else. If you have a job, he says, you can lose it. But a consultant typically has 7 to 12 clients, so if he loses one, he is not wiped out. And he may be able to pick up another to replace the one lost.

Could you be a consultant? A clue: Do others—friends, relatives, colleagues—seek you out for your ideas and your knowledge of a particular subject?

"I think people deep down know if they are good and have a talent of value to someone else," Shenson observes.

Beyond that, he suggests, you should enjoy research and the challenge of testing your ideas in the marketplace. You should be pragmatic, so that the solutions you suggest will be appropriate to your clients' needs.

And you need to be a self-starter. Says Shenson: "No one is going to tell you to get up in the morning."

—Sharon Nelton

The consultants who turn to Howard L. Shenson for advice have included not just traditional business specialists but also experts in party-giving and skateboarding.

Issues That Could Affect *Your* Business . . . and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
Budget/Taxes	Congressional decisions to spend more and tax more to pay for election year promises could restrict economic growth and cut short recovery.	Members of the House and Senate: Do not bloat the budget with unnecessary spending. Do not allow a tax rate hike or take away indexing.
Hazardous Waste	A potential paper work nightmare, especially burdensome to small business, looms if faulty House-passed bill is not corrected. And the environment would not be significantly improved.	Members of the Senate: Environment would be protected best by establishing identical reporting and regulating triggers at 100kg per month. Consider technical, administrative capability.
Product Liability Reform	Business and consumers will benefit when Congress clarifies law by providing clear-cut standards and limits on liabilities of product sellers. Fewer suits mean lower court costs.	Members of the Senate: Urge swift Senate Commerce Committee action and full Senate adoption of bill setting basic standards covering all categories of product liability.
Line-Item Veto	The federal budget, and therefore the federal deficit, would be better controlled if the President were allowed to veto individual programs within larger appropriations bills.	Members of the House and Senate: Support the deficit-reduction program by granting the President line-item veto authority, either by statute or by constitutional amendment.
Balanced-Budget Amendment	The federal government would be obligated not to spend more money than it takes in and not to increase the tax burden. Congress would be forced to act in a responsible manner.	Members of the House and Senate: Support congressional efforts to enact an amendment to the Constitution requiring a balanced federal budget with a limit on taxation.
Acid Rain	New acid rain control programs could cost billions each year. Business and consumers would pay for these measures, through higher prices for electricity and possibly lost jobs.	Members of the Senate: Research on acid rain's causes and effects should be continued and accelerated. Existing law will reduce emissions without costly new controls.
Immigration	Congress may dump huge paper work burden on small business if key amendment is deleted on House floor.	Members of the House: Maintain voluntary reporting language now in Judiciary bill. More paper work will not safeguard borders.
Bankruptcy	Bill restructuring bankruptcy courts faces April 1 deadline. Consumer bankruptcy bill giving judges authority over abusers needs to be added.	Members of the House: When you address the status of bankruptcy judges, support passage of consumer bankruptcy legislation.
National Industrial Policy	Bill's sponsors want an increased government role with more centralized planning by federal officials, less freedom of choice by the individual. Bad legislation and bad concept.	Members of the House and Senate: Do not restrict the free enterprise system with more government dictates that lead only to less employment, initiative and opportunity.

What You Can Do About Government Spending

President Reagan's fiscal 1985 budget dramatizes the extent to which government spending can resist even the most intensive efforts to slow its growth.

Despite the President's commitment to economy, federal outlays still represent 24 percent of the gross national product, with no prospect of a significant decline soon. Private-sector economists consider 20 percent the maximum level of resources the economy can safely give up to the government.

The key problem is Congress' reluctance to come to grips with the prime cause of runaway federal spending—the massive expansion of government redistribution programs over the past 20 years. Such spending, measured in constant 1972 dollars, will be higher in the coming fiscal year than it was in 1965. Total spending will be up 125 percent and defense spending 38 percent.

What can business people do to curb the growth of federal spending?

The immediate challenge is to help elect fiscally responsible individuals to Congress this November. Business should support candidates with the determination to achieve final victory in the fight the President has launched against uncontrolled federal spending. Another way to curb outlays is to...

... Require Congress To Be Responsible

A federal budget going from $364 billion to nearly $1 trillion in 10 years is sufficient evidence that restraint measures thus far have been inadequate.

The Congressional Budget Reform Act of 1974 was supposed to impose spending discipline by making the legislators consider a total budget in place of a dozen unrelated appropriations bills.

At one point, Congress actually passed a law requiring it to produce a balanced budget, but it has ignored its own directive ever since.

And partisan politics has wiped out the promise of 1981 that Congress and the White House could reach lasting accord on budget reductions.

It is apparent that an effective means of discipline must come from outside the present system for making fiscal policy.

The time has come to bring up the ultimate weapons of budget control—constitutional amendments beyond the power of Congress to ignore or rescind at will. One would require a balanced budget. (See article on page 22.) The other would give the President authority to veto individual items in appropriations bills, instead of having to accept or reject the bills as packages.

State ratification of such amendments could take two or more years, so Congress should immediately begin the process of submitting proposals to the states.

A Lesson for Critics Of the Oil Industry

Mukluk Island, far off the northwestern coast of Alaska, has achieved a degree of fame among those who follow the energy industries.

Recently, Mukluk became the site of the most expensive dry hole ever drilled in search of crude oil.

Encouraged by preliminary analyses indicating the possibility of a major discovery, 11 oil companies invested $1.5 billion.

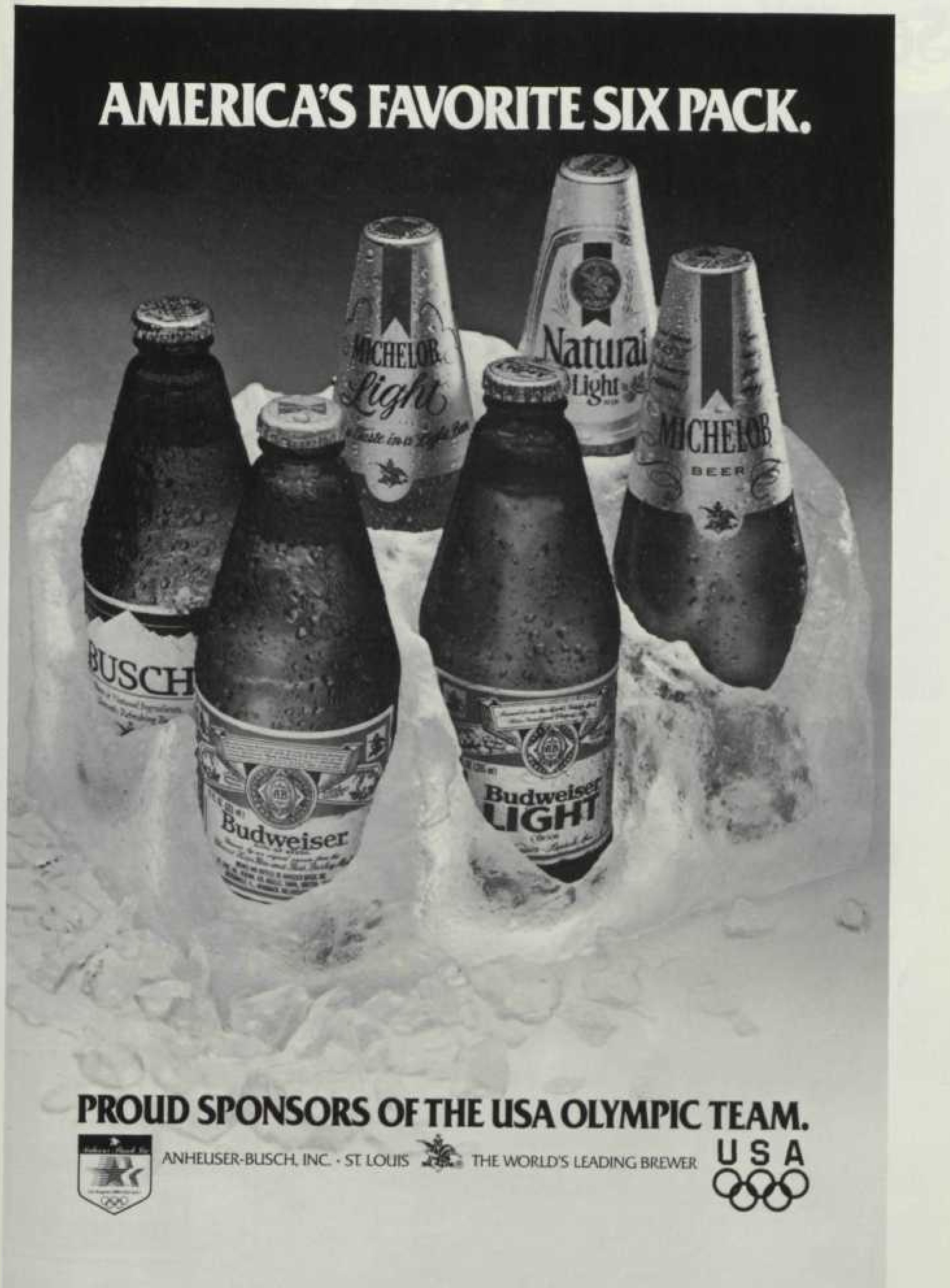
A test well drilled nearly 10,000 feet through the sea's floor brought up salt water with only traces of oil, and the site has been abandoned.

Massive industry investments off the Atlantic coast and in the northeastern part of the Gulf of Mexico have produced several such setbacks in recent years.

The oil industry's bad luck at Mukluk is significant, however, not only for the record costs involved, but also for the lesson it offers industry critics.

Since the price surge that began with the Arab embargo more than a decade ago, no industry has been subject to more allegations of manipulating markets or reaping excess profits than has the oil industry.

Oil companies' willingness to gamble—and lose—$1.5 billion to help assure a continuing supply of a critical resource presents a more realistic picture of how the industry meets its responsibilities. □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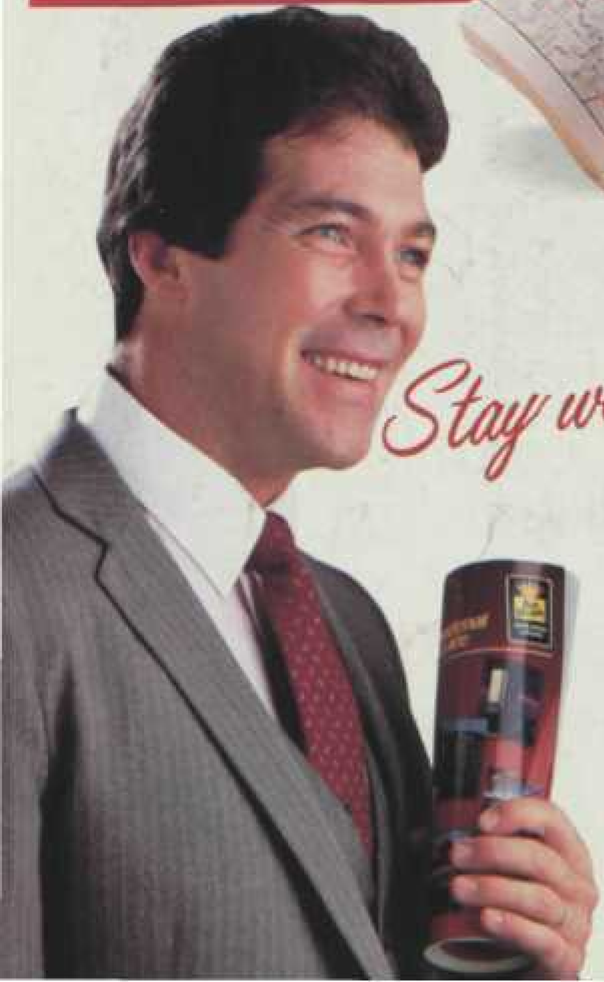

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